Internal Audit of the Purchasing and Accounts Payable Departments -
for the Fort Bend Independent School District

PREPARED AND SUBMITTED BY:

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Contents

Executive Summary

Gibson Consulting Group, Inc. (Gibson) was engaged to conduct an internal audit of the Purchasing and Accounts Payable Departments for the Fort Bend Independent School District (the district). This report presents the findings of the audit, along with recommendations to improve processes and address the findings from this audit.

The audit involved interviews with Purchasing Department and Accounts Payable Department staff as well as data analytics and testing of transactions to ensure compliance with board policies, administrative regulations, and district operating procedures. The audit took place from November 2014 to January 2015.

The summary below includes a list of best practices and recommendations identified during the audit.

Commendations

1) **The district has strong controls around segregation of duties and restriction of access.** The Purchasing Department and Accounts Payable Department are well separated in terms of roles and responsibilities. For example, the Purchasing Department has the ability to create vendors within Oracle PeopleSoft, the district's financial information system. Specifically, only 2 individuals have that permission in the system. The Accounts Payable Department does not have a role in the process of procuring goods and services for the district; they only have a part in the payment process. Another example is the restriction of access to check stock and the check printer, which is only accessible by the Accounts Payable Manager and the Accounts Payable Specialist.

2) **The staff is very experienced and knowledgeable at all levels.** The staff at both departments have a strong understanding of the purchasing and payables process and how their respective responsibilities fit into the process. The staff is well supervised and appears to have a great sense work of ethic and dedication to the district.

3) **The district has initiated the use of electronic payment methods.** A group of employees and vendors are being piloted for the use of electronic payments. Specifically, all travel reimbursements to district employees are expected to be made through direct deposit by early 2015.

4) **The district's Procurement Cared (PCard) process is efficient.** The process for approving and paying PCard transactions is incorporated within Oracle PeopleSoft, which allows for the lowest transactional level detail to be visible within the general ledger. Cardholders do not have to submit or retain hard paper receipts as the receipts are uploaded to Oracle PeopleSoft.

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Recommendations

Table 1. Summary of Recommendations

No.	Recommendation
A.1	Standardize level and format of documentation for all criterion evaluated when awarding contracts.
A.2	Perform analysis to better understand root cause of improper contracts and implement control procedures to eliminate them.
A.3	Streamline contract (<$50,000) execution process.
B.1	Modify Oracle PeopleSoft configuration to exclude revenue codes for purchase orders.
B.2	Implement control procedures to better monitor use of blanket purchase orders.
C.1	Review current receiving procedures and implement changes to address the timeliness of receiving and safeguarding of assets.
C.2	Implement procedures regarding when assets may be disposed.
D.1	Perform analysis to better understand root cause of "confirming purchase orders" and implement control procedures to eliminate them.
D.2	Expand use of electronic payment methods for paying vendors.
D.3	Implement additional controls for the review of Purchasing Card (PCard) transactions.
E.1	Implement performance measures to monitor efficiency and customer satisfaction.

The remainder of this report presents detailed findings and supporting information related to each recommendation. It is organized into the following sections:

Background
Testing Methodology
   A. Competitive Bidding Process and Contracting
   B. Procurement
   C. Receiving
   D. Payables and Disbursements
   E. Other

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Background

Financial and Systems Overview

The district has seen overall increases in the non-payroll expenditure relating to purchased goods and services, due in part to growth, as well as investments in supplies and materials. Table 2 outlines operating expenditures for the district over the past 5 years.

Table 2. Operating Expenditures and Student Enrollment, FY 2010 – FY 2014

Expenditure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
6200 Professional and Contracted Services	$41,583,782	$46,876,145	$46,500,984	$44,066,803	$45,963,822
6300 Supplies and Materials	$33,640,870	$43,480,577	$47,070,357	$37,621,353	$46,798,192
6400 Other Operating Costs	$56,370,974	$57,295,469	$58,737,676	$62,590,480	$56,517,766
All other costs	$459,234,606	$522,992,416	$504,089,621	$506,261,232	$534,585,880
Total	$590,830,232	$670,644,607	$656,398,638	$650,539,868	$683,865,660
Student Enrollment	69,372	68,945	69,445	69,588	70,929

Source: Operating Expenditures: Oracle PeopleSoft General Ledger, Student Enrollment: TASBO Efacts+

Professional and Contracted Services have historically made up 7% of total operating expenditures. The increase in Professional and Contracted Services in FY 2011 was due to increases in other contracted services, which then remained relatively steady through FY 2014. Supplies and Materials have historically accounted for 6% to 7% of total operating expenditures. The large increase in FY 2011 was due to purchases of computers. The increase in FY 2014 was primarily a result of new computer and instrument purchases, as well as new textbook adoption. There was also increased state funding which was spent mostly on instructional supplies for elementary and middle schools.

Other operating costs typically make up 8% to 10% of total operating expenditures. The decrease in FY 2014 was due to decreases in other operating expenses.

The district uses Oracle PeopleSoft as their accounting system. Oracle PeopleSoft is used to capture all purchasing transactions for the district and facilitates the process from requisition to payment.
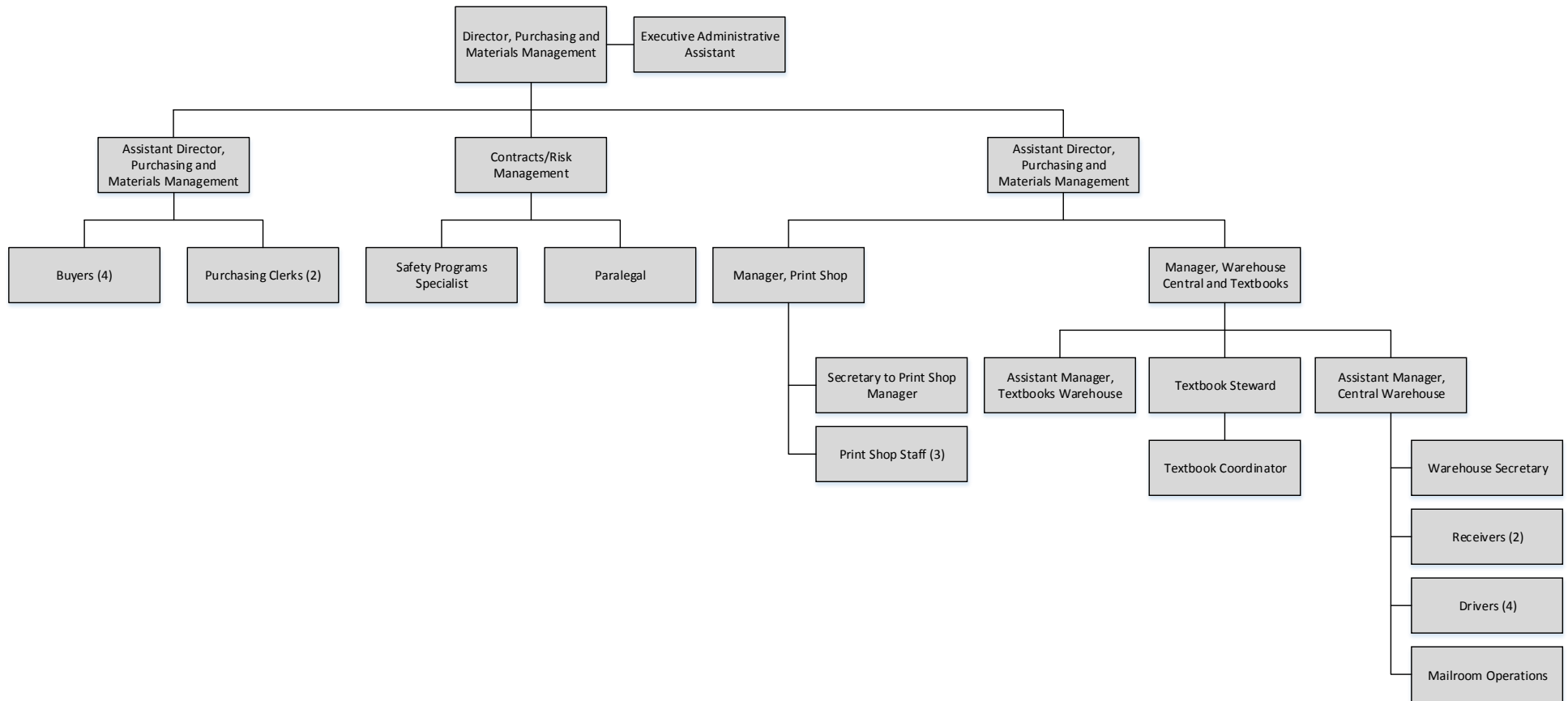
Purchasing Department

The district's Purchasing and Materials Management Department includes 31 positions, of which 13 support the procurement process for the district. The department has seen relatively low turnover; however, the Director of Purchasing of Materials Management recently left the district. As of the time of this audit, the position had been filled.

Figure 1 depicts the current structure of the Purchasing Department, including all materials management (warehouse) staff. The materials management area also includes the district print shop, which was not within the scope of this audit.

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For purposes of this audit, the audit team interviewed all supervisors and other department staff. Appendix A contains the complete interview roster. The Buyers are responsible for review and approval of all purchase orders (POs) prior to sending to vendors. Each Buyer is assigned certain commodity categories, which encompass specific vendors. The Buyers also oversee the competitive bidding process and awarding of contracts. The purchasing clerks support the Buyers and are also the only two district employees who have access to create and modify vendor information within Oracle PeopleSoft. The Assistant Director of Purchasing and Materials Management oversees the Buyers and is also the Buyer in charge of all technology purchases for the district. The Paralegal is responsible for processing all paperwork for contracts under $50,000. The Risk Management Manager validates that all vendor contracts comply with the district's insurance requirements. The second Assistant Director of Purchasing and Materials Management oversees the print shop and warehouse managers. The Purchasing Department has an extensive purchasing manual that is available to all district employees via the district's intranet.
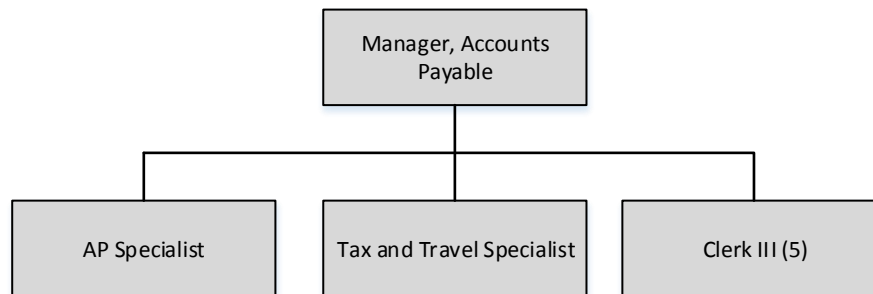
Figure 1. Purchasing Department Organization Chart

Source: Fort Bend Purchasing Department

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Accounts Payable Department

The districts Accounts Payable Department currently includes 7 positions (one clerk position was vacant at the time of this audit). Figure 2 depicts the structure of the Accounts Payable Department. The general responsibilities of the Accounts Payable Clerks are to process invoices, assist with check processing and answer any questions that district employees may have regarding accounts payable. Each Clerk is assigned specific vendors, while the Tax and Travel Specialist focuses on employee travel reimbursement. The Accounts Payable Specialist assists the Accounts Payable Manager and backfills for clerks, if necessary. The Accounts Payable Specialist also has the access to print checks. The Accounts Payable Manager oversees the entire department and processes payments for PCards. The Accounts Payable Manager also has access to print checks and approve price differences between invoices and POs greater than 20%.

Figure 2. Accounts Payable Department Organization Chart

Source: Fort Bend Accounts Payable Department

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Testing Methodology

Gibson's testing strategy contained two main elements, data analytics, and sample testing of individual transactions and process controls. Data analytics encompasses a review of an entire population of transactional data to detect any anomalies that would indicate non-compliance with policies and procedures, lack of controls, and inefficiencies in processes.

Sample testing of transactions focuses on a subset of the transactional data population. During testing, Gibson corroborates each aspect of the transaction selected through the review of all documentation retained for the transaction. The selection of samples for testing is based on experienced auditor judgment and is driven by information gained during interviews and data analytics.

Based on the timing of this audit, the transactions being analyzed occurred between July, 1, 2013 to June 30, 2014 (FY 2014) and July 1, 2014 to October 31, 2014 (FY 2015 YTD). This will be referred to as the "audit period" for purposes of this report.

Sections A through D of this report elaborate on the analytics, transaction testing, audit findings and recommendations for each major area of the purchasing and payables process. The findings outlined in each section do not always result in a recommendation; however, they are outlined as findings to highlight their importance in the process. Table 3 provides a high level summary of the areas transaction testing that was executed.

Table 3. Testing Summary

Test No.	Sample Size	Test Overview
Test 1	7	Audit of competitive bidding process from drafting of proposal through vendor selection and execution of contract.
Test 2	60	Audit of transactions using a Purchase Order. Each transaction was reviewed from requisition to payment.
Test 3	20	Audit of travel reimbursement transactions paid to employees and non-employees. Each transaction was reviewed from requisition to payment.
Test 4	20	Audit of transactions not using a Purchase Order. Each transaction was reviewed from requisition to payment.
Test 5	15	Audit of transactions using a Purchase Card. Each transaction was reviewed from execution to payment.
Test 6	10	Audit of Purchase Card issuances.

In addition to the interviews held with the Purchasing and Accounts Payable Departments, Gibson also held a customer focus group, in which a total of six Bookkeepers and Secretaries participated.

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A. Competitive Bidding Process and Contracting

The Texas Education Code, Chapter 44 (TEC 44.031), outlines the methods to be used by the district to procure items. The department staff use the code when developing bids and proposals. According to Board Policy CH (Legal), all district contracts of $50,000 or more in the aggregate for each 12-month period should be made by the method that provides the best value for the district. The Buyers oversee the proposal/bid process for their assigned vendors. The Buyer works with the department to build the specifications of the proposal/bid. Upon finalization of the proposal/bid, the requesting department will approve the final proposal/bid package prior to advertising.

> *FBISD Board Policy CH (Legal) – In awarding a contract, the District shall consider:*
> 1. *Purchase price.*
> 2. *The reputation of the vendor and of the vendor's goods and services.*
> 3. *The quality of the vendor's goods or services.*
> 4. *The extent to which the goods or services meet the District's needs.*
> 5. *The vendor's past relationship with the District.*
> 6. *The impact on the ability of the District to comply with laws relating to historically underutilized businesses.*
> 7. *The total long-term cost to the District to acquire the goods or services.*
> 8. *For a contract that is not for goods and services related to telecommunications and information services, building construction and maintenance, or instructional materials, whether the vendor or the vendor's ultimate parent company or majority owner has its principal place of business in this state or employs at least 500 persons in this state.*
> 9. *Any other relevant factor specifically listed in the request for bids or proposals.*

In accordance with TEC 44.031, the district advertises locally for two weeks. Interested vendors may download the documents from the district's website. A bid and proposal log sheet is maintained by the Buyers. Once initiated, the proposal/bid is assigned a sequential number.

Only those submissions that are delivered on time will be accepted by the Purchasing Department. A log is maintained by the Executive Administrative Assistant to document the date and time that submissions are received. All the bids and proposals are opened at the designated date and time in public. For bids, the vendor name and price are read aloud. For proposals, only the vendor name is read aloud.

Along with the requesting department, the Buyer will designate an evaluation committee to review submissions. Proposals are evaluated based on the criteria set forth in the proposal. Board Policy CH (Legal) further outlines criteria that must be considered when evaluating submissions. That criteria is in line with TEC 44.031. In many cases, the proposal will include criteria above and beyond the required items. Bids are primarily based on price, assuming that the vendor meets all the specifications of the bid. However, the district is not required to select only based on price.

The assigned Buyer facilitates the evaluation process, ensuring that the evaluation committee understands the process and elements of the evaluation. Depending on the criteria, some of the scoring may be done by the Buyer. Examples of these would include: vendor's safety record, quality of vendor's goods (e.g., validation of vendor references), and purchase price. The criteria evaluated by the Buyer is typically evaluated under a "meets", "does not meet" or formulaic point assignment. All scoring sheets are collected and summarized by the Buyer and a meeting is held between the Buyer and the evaluation

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committee to finalize the recommendation. The recommendation goes to the vendor with the highest score.

A recommendation memo (including expected term of contract) is drafted by the Buyer and presented to the Board for approval. Upon approval, the Buyer notifies the vendor and routes to the Legal Department for finalization and signing of the contract.

The Legal Department oversees all contracts over $50,000 as well as those contracts where the vendor does not wish to use the district's standard contract, regardless of the amount, and contracts that for any other reason were flagged to be reviewed by the Legal Department. Beginning summer 2014, the legal department established a process whereby all contracts that are brought through the department are logged and each one goes through a review before being routed to the Superintendent for signature. Since the logging of contracts was implemented, a total of 563 contracts have been brought to the legal department for review. This translates to approximately 75 to 100 contracts per month, all of which are signed by the Superintendent. The dollar value of these contracts varies widely. District policy CH (Local) – Authority to Sign Contracts indicates that an employee at the level of principal, director, or above shall be authorized to sign contracts up to $10,000, however, the Superintendent is currently signing all contracts. This came as a result of knowledge of contracts being signed after services were performed (discussed in more detail below).

> *CH (Local) – Authority to Sign Contracts*
>
> *"No employee shall be authorized to sign contracts that obligate the District. An employee at the level of principal, director, or above shall be authorized to sign contracts of up to $50,000 for budgeted purchases of goods or services.*
>
> *The Superintendent and Cabinet members shall be authorized to sign contracts valued under $50,000 for budgeted purchases of goods and services. Contracts at or above $50,000 shall require approval by the Board and may be signed only by the Superintendent of designee."*

In many cases the Legal Department works closely with external Counsel to ensure that the contract terms are those that will be best for the district and pose the lowest risk.

As part of the contract process, the Risk Management Manager reviews the vendors' proof of insurance levels (if applicable) to ensure that the vendor meets the insurance requirements set forth by the district.

After the contract is signed by all parties, the Buyer creates a folder to retain all documents involved in the bid/proposal resulting contract. The Buyer will also send a vendor creation request through Oracle PeopleSoft to add the vendor to the vendor list. The request is processed by the Purchasing Clerks, who also validate that a current W-9 is on file for the vendor. When the vendor profile is created, the profile indicates how the POs are to be delivered to that vendor and method of payment.

Other (miscellaneous) contracted services typically result in result in contracts under $50,000. Examples of these would include services from storytellers, guest speakers, DJs, staff development specialists, etc. The district recently established a Paralegal position within the Purchasing Department to oversee the processing of contracts for these services. The Purchasing Department began logging details of all contracts under $50,000 in August 2014.

Prior to the services being performed, a contract request must be made by the requester. A set of forms (e.g., service agreement, certificate of insurance, conflict of interest form W-9, etc.) must be completed and submitted to the paralegal for processing. Upon validation of the paper work, the contract is routed to the Superintendent for approval. The signed contract and related forms are required for payment.

Testing

Gibson obtained the bid and proposal log for FY 2014, noting that 72 bids/proposals were processed during that time. From the log, Gibson selected four proposals and three bids to test (Test 1). For each selection, Gibson reviewed all documentation maintained by the Purchasing Department. The testing included re-performance of the selection process outlined above and ensuring that documentation existed for all key aspects of the process and ultimate vendor selection. Specifically, the audit team validated the following:

- The bid/proposal was locally advertised for two weeks.
- All submissions evaluated were received by specified time.
- Scoring criteria used to evaluate is the same as what was included in the bid/proposal and included the basic elements outlined in TEC 44.031.
- Copies of scoring sheets for all members of the committee were retained.
- Tabulation was mathematically accurate.
- Scoring was objectively supported by the content of the submission.
- Board approved the recommended vendor, including contract term reflected the executed agreement.
- Contract was signed by the appropriate individual and included all exhibits.

Gibson also met with the Oracle PeopleSoft Security Analyst to validate that the Purchasing Clerks are the only employees with the ability to create vendors and modify the approved vendor list within Oracle PeopleSoft. The Oracle PeopleSoft Security Analyst provided a report corroborating this access within the system.

Findings and Recommendations

Access to vendor list is properly restricted. The ability to modify vendors within Oracle PeopleSoft is appropriately restricted to the Purchasing Department and segregated from the Accounts Payable function.

Certain evaluation criteria for proposals is not fully documented. For one of the seven selections, there was insufficient documentation to conclude whether all the scoring criteria was properly evaluated. The Buyer who worked on the bid was no longer with the district and no additional support was available.

For the other six selections, the scoring conducted by the evaluation team was well documented; however, the criteria evaluated by the Purchasing Department was not always documented. While some criteria is purely mathematical and easy to determine (e.g., purchase price), this is not the case for others. A few examples of evaluation criteria that were not well documented include: Uniqueness, Organization,

and Financial Strength. The level and format of documentation varied by the Buyer overseeing the process.

Recommendation A.1: Standardize level and format of documentation for all criterion evaluated when awarding contracts.

The documentation retained to support the evaluation of vendors should be consistently and completely documented for all criteria being evaluated and for all awards, regardless of which Buyer is overseeing it. Appendix B includes an example of a well-documented criteria sheet. This should be used as a cover sheet for an evaluation packet that would also include the summary tabulation sheet and scoring sheets for each member of the evaluation committee, as well as the Buyer's.

Management Response A.1: Management agrees that the format for documenting the evaluation criteria should be consistent and as uniform as possible. Management believes the district is fully compliant in this regard, as each Board Agenda Item that is taken to the Board of Trustees for approval includes backup evaluation documentation in a standardized format. This documentation is also included in the formal procurement record. The criteria that are evaluated are determined by the Texas Education Code Sec. 44.031(b), and said criteria are utilized and documented in the procurement record. The weights that are utilized will vary depending upon the particular requirements of any given project. To best meet the needs of our many customers, it is important that this flexibility is maintained.

Contracts for services are being requested after the services have been performed. Since the process of logging contracts (under $50,000) began in August, 67 improper contracts were identified. The improper contracts are those where the requester submits the contract (and related forms) for execution after the services were provided.

Recommendation A.2: Perform analysis to better understand root cause of improper contracts and implement control procedures to eliminate them.

While the Accounts Payable manual indicates that a 2-week lead time is necessary for the Purchasing Department to properly process paperwork relating to contracted services, it is evident that this procedure is not being followed. Based on the feedback from the focus group, there is a perception that the paperwork "*takes too long.*" This perception, combined with insufficient planning, could be contributing to a high number of improper contracts.

Management Response A.2: Management agrees that improvement is needed in this area, and during the past year has engaged in focused efforts to improve district processes. When the district leadership team changed in 2013, contracts were not being adequately reviewed and were frequently executed after services were rendered. Since that time, the district has undergone two significant transitions to remedy these concerns. First, beginning 2013 until recently, all contracts were signed by the superintendent, following a review by the staff attorney. While this process did cause some delay in processing, it also resulted in a more consistent review process, and contracts that were compliant with district policy and procedures. In summer 2014, with the assistance of outside counsel, new procedures were developed. These procedures were implemented in late 2014, under the oversight of a newly designated Contract Manager. A one-page service contract template and minor facility contract template was created.

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Contracts valued at less than $50,000 no longer go to FBISD Legal for review if these templates are used. As budget managers have become used to this new process, the number of contracts submitted after services were performed has dropped dramatically. Such instances are now rare.

Process for executing contracts (<$50,000) is time and paper intensive. Currently, the process of completing the paperwork is completely manual and handled via email and US Postal mail (for vendors). At the times, the time frame to collect all the signed documents from vendors can take up to two weeks or more. After the forms are received, the paperwork must also be reviewed and signed internally, which can also take up to two weeks.

Recommendation A.3: Streamline contract (<$50,000) execution process.
The district should consider ways to streamline this process, such as implement request and approval capabilities for contracts within Oracle PeopleSoft. Additionally, online forms for vendors could facilitate gathering the forms that vendors must complete and return.

Management Response A.3: Management agrees. In addition to the procedural changes described above, to streamline the contract execution process even further, the district implemented the following new procedures effective January 1, 2015:

- *Budget managers can sign the one page contract for services up to $1,000*
- *CFO can sign one page service contracts and minor facility contracts up to $10,000*
- *Monthly report of contracts signed by budget managers and CFO's will be provided to the Superintendent, E-Team and Assistant Superintendents*
- *One-page vendor contracts (restaurants, theme-parks, etc.) that are single day events can be processed by Purchasing and be signed by the Chief Finance Officer if less than $10,000*

As part of this procedure change, all contracts signed by the Chief Finance Officer will be included in the monthly summary for the Superintendent. Listings will include date, campus/department, vendor name, service and amount.

This new process will further reduce the number of contract requests flowing through the district's legal department, and is expected to expedite the movement of approvals exponentially.

Additionally, the district will explore the concept of making required forms available through an online portal to eliminate or reduce manual paperwork gathering from vendors. This will involve partnering with our Information Technology Department and will be prioritized along with other pressing district needs.

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B. Procurement

The district predominately uses POs to procure goods and services. During FY 2014, the district processed over 30,384 POs with an associated value of $145 million. For FY 2015 YTD those figures were 12,438 and $116 million, respectively. Specifically, Table 4 displays the POs stratified by individual PO value.

Table 4. FY 2014 and FY 2015 YTD (4 months) PO Volume by Dollar Category

PO Value	FY 2014	FY 2015
$1 - $1,000	23,836	9,491
$1,001 - $5,000	5,051	2,278
$5,001 - $10,000	668	270
$10,001 - $20,000	333	149
$20,001 - $50,000	299	144
>$51,001	197	106
Total	**30,384**	**12,438**

Source: Purchase Order Listing, FY 2014 and FY 2015 YTD (as of 10/31/2014)

As shown in the Table 4, the majority of invoices are processed have an associated value of $1 to $1,000. The process begins when a district staff member, typically department or school Secretaries and Bookkeepers, submit a purchase requisition via Oracle PeopleSoft. Oracle PeopleSoft "workflow" functionality then determines the chain of command based on the location and budget code from where the requisition is being funded. The "workflow" is configured by the district based on which positions have the authority to approve the purchases. The requester selects the commodity code which is linked to specific object codes (expenditure type). The requisition is always routed to the Budget Manager over that budget. The Budget Manager must approve the requisition for Oracle PeopleSoft to route to the appropriate Buyer (based on the commodity category).

When the requisition is entered, Oracle PeopleSoft automatically checks budget funds availability before encumbrance of funds. The system will check for funds at the account group level. The requisition cannot proceed if sufficient funds are not available. If funds are not available, the requester must submit a budget transfer request via Oracle PeopleSoft in order to continue with the requisition. In cases of emergencies or unique situations, the Director of Business and Finance and the Director of Budget have the ability to approve and expedite the requisition within Oracle PeopleSoft prior to processing the budget transfer.

Once received, the Buyer must review the requisition to ensure that the appropriate vendor is pricing is reflected for all the items being ordered. When the specific items being purchased are outlined in the order, the resulting PO is referred to as line PO, which is different from a Blanket Purchase Order (BPO), discussed later in this report. Once verified, the Buyer approves the requisition within Oracle PeopleSoft and a PO is created. The system assigns sequential numbering to purchase orders. The POs are submitted to the vendor based on the specification when the vendor profile was created. The process of issuing POs is predominately paperless (e.g. Oracle PeopleSoft automatically sends via email); very few POs are faxed.

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Requesters can also request BPOs. Blanket Purchase Orders are approvals of a set amount to be spent with a particular vendor. The BPO does not typically indicate the specific items being purchased. BPOs can be beneficial when a campus/department will have repetitive services or items from the same vendor over the fiscal year or instances where the campus/department will have numerous and small dollar materials or supplies purchases. BPOs can be very useful in instances where multiple recurring payments need to be made.

Testing and Data Analytics

Gibson obtained a listing of all POs expedited during the audit period (42,822). The listing was analyzed and stratified to identify anomalies in the data. The listing below is a summary of the data analytics results.

Unusual PO numbers: Oracle PeopleSoft automatically assigns a sequential 10 digit PO number when a requisition is approved by the Buyer. Gibson identified three PO numbers that were out of sequence and did not follow the 10 digit format as expected. PO numbers AM14CATNF, KR14CATGF, KR15CATGF1 are used by the Child Nutrition Department to track the high volume of recurring food purchases (similar to a BPO). The unique numbering is to identify these purchases and the related PO numbering sequence was approved by management.

Unusual PO dates: This analysis looked for PO dates that occurred on holidays or weekends. Gibson identified 25 POs that were created on Saturdays. Gibson reviewed the details of these POs within Oracle PeopleSoft and did not note anything within those transactions that would indicate deviation from the procurement process. It is not unusual for Buyers to conduct work on weekends, as access to Oracle PeopleSoft can be remote.

Zero dollar POs: Gibson identified four POs that were valued at $0. Upon further inquiry, noted that the when items are cancelled on the PO value is brought down to zero.

Longstanding open POs: Gibson identified 200 POs that have been outstanding 1 year or more as of the time of this audit. Upon further inquiry, it was noted that all these POs were "rolled" POs from prior fiscal years. The district has an annual process where the Budget group reviews all open POs and follows up with the requester for closing. This review begins in March and by the closing of the school year, the list of any POs that need to be rolled forward are summarized and presented to the Board. It is not unusual to have POs that will need to be rolled forward. For example, POs may relate to ongoing projects, especially in the realm of grant funds. Also, there may be instances there the vendor has not yet delivered and the PO should remain open.

Proper budget coding: Gibson identified 68 POs, totaling $119,000, that were coded to revenue accounts instead of expenditure accounts. Table 5 outlines the number and dollar value of the POs along with the associated revenue code.

Table 5. Summary of POs Coded to Revenue

Fund – Object Code	No. of POs	Value of POs
461 – 5755 – Campus Activity Fund Revenue	57	$105,000
199 – 5752 – Athletic Revenues	10	$13,000
199 – 5739 – Tuition & Fees	1	$725

Source: Gibson analysis of PO Listing, FY 2014 and FY 2015 YTD (as of 10/31/2014)

Debits to these revenue accounts are not unreasonable in the instances of refunds; however, it is unusual that refunds would be issued using a PO. Upon further review noted that all of the 68 POs were for procurement of goods, not refunds, thus these POs were inappropriately coded. For example, the PO coded to 5739 was for purchase of office supplies, yet coded to Tuition and Fees revenue. Refer to the Findings and Recommendations for further details of this analysis.

Blanket Purchase Orders – The district processed 4,500 BPOs with an associated value of $37 million in FY 2014 and 2,100 BPOs with an associated value of $20 million in FY 2015 through October.[1] While BPOs can be very efficient in various instances, they include less detail than a line PO in terms of what is being purchased. It is typical to use BPOs for purchases of fuel, postage, utilities and other recurring purchases where the quantity is not known until it is used. Given the large volume and dollar value of BPOs, Gibson obtained a listing of BPOs and stratified the by dollar category. Table 6 displays the stratification for the audit period.

Table 6. FY 2014 and FY 2015 YTD (4 months) BPO Volume by Dollar Category

BPO Value	FY 2014	FY 2015
$1 - $1,000	2,898	1,299
$1,001 - $5,000	1,076	633
$5,001 - $10,000	178	82
$10,001 - $20,000	88	43
$20,001 - $50,000	105	61
>$51,001	98	53
Total	**4,443**	**2,171**

Source: Blanket Purchase Order Listing, FY 2014 and FY 2015 YTD (as of 10/31/2014)

Based on the expected use of BPOs, it was unusual to see such a high volume of POs under $1,000. This would indicate that there are purchases that would be better suited using a line PO.

In addition to the data analytics, Gibson also selected 60 POs to test (Test 2) from the list of expedited POs (which also included BPOs). For each of PO, Gibson performed the following procedures:

- Reviewed details of requisition, including proper budget code.
- Validated proper approval based on the aforementioned approval procedures.

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[1] To prevent skewing of dollar impact, excluded four BPOs for Rx & medical claims and for construction of elementary school #46, totaling $131 million dollars.

- Validated that the PO was being issued to an approved vendor.
- Calculated number of days from requisition submission to PO issuance.

Findings and Recommendations

POs can be improperly coded to revenue. While not unusual that refund transactions generate debits to revenue accounts, it is unusual that refunds would be issued through a PO. Based on the POs identified, Gibson further investigated the system functionality that could allow POs to be coded to revenue. Gibson also reviewed the mapping of commodity categories to object codes. In reviewing the mapping, it was noted that there were additional revenue codes mapped to commodity codes. Table 7 summarizes the commodity categories mapped to revenue.

Table 7. Oracle PeopleSoft Commodity Category to Object Code Mapping

Commodity Category	Description	Object Code	Description
94615	Refunds – Summer School	5735	Summer School Tuition
94620	Refunds – Transportation	5736	Pay Transportation
94610	Refunds – Tuition	5739	Tuition and Fees
94625	Refunds – Extended Day	5739	Extended Day Tuition and Fees
94607	Refunds – Facilities Rentals	5743	Rental Income
94633	Refunds – Gifts and Bequests	5744	Gifts and Bequests
94605	Refunds – Transp Bill to Vendor	5749	Other Revenue
94630	Refunds – Meal Sales	5751	Meal Sales
96102	Athletic Revenue Refund	5752	Athletic Revenues
94640	Refunds - Co Curricular-Non Athletic	5753	Co-Curricular-Non Athletic
94632	Refunds – Employee Insurance Pmts	5754	Internal Service Fund Revenues
94635	Refunds – Activity Fund	5755	Activity Fund Revenue

Source: Commodity Category and Object Code Mapping

When entering POs, the requester selects the commodity code which will drive the object code. All commodity categories shown in Table 7 relate to refunds and not to actual procurement of items. The root cause of the miscoding appears to be user error when selecting the appropriate commodity category at the time of entering the requisition. This error was not detected during the Budget Manager review or Buyer review of the transaction.

Recommendation B.1: Modify Oracle PeopleSoft configuration to exclude revenue codes for POs.
Oracle PeopleSoft should not allow for POs to be coded to revenue codes. Refunds from revenue codes should be issued through a non-PO voucher for payment. The district should remove the system ability to process requisitions using revenue codes.

Management Response B1: Management does not agree. The District does not want to restrict users from using revenue codes for purchase orders because there are some instances in which purchase orders are coded to revenues for contra-revenue purposes. The District recently contracted with Disbursement Review

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to review all invoices paid to determine if the District might have made duplicate payments or might have credits with vendors and the PO to Disbursement Review was coded to a revenue account. Additionally, the District utilizes an electronic payment program, RevTrak, whereby users make online payments using credit cards for purchases (prom, field day tshirts, instrument use fee, etc.) Management notes that there are instances in which there may be payments made to RevTrak that are recorded as contra revenue accounts. Management will establish procedures to review purchase orders with revenue accounts on a quarterly basis to ensure that all purchase orders are properly coded.

Blanket Purchase Orders are not always used appropriately. Gibson further analyzed the listing of BPOs, specifically those with a value under $1,000. Based on review of the BPO descriptions, it appeared that several of those should have been line POs or that there were several BPOs for the same items, each with small dollar amounts. The following are some examples of these instances:

– 580 BPOs with the description "*BPO Miscellaneous supplies to support students IEPs*" were issued, with an average individual BPO value of $50. Assuming that supplies to be consumed are unknown, fewer larger valued BPO would have been more efficient.

– Examples of BPO descriptions that would indicate a line PO would have been a better method to procure the goods, such as:

> *"BPO for Projector lamps for the Computer labs"*
>
> *"BPO for Handbell choir gloves"*
>
> *"BPO to purchase microwave needed for lounge"*
>
> *"BPO for Water Hoses for Water Stations outside"*
>
> *"BPO Renewal for Sam's Club oshonna oliver"*

Recommendation B.2: Implement control procedures to better monitor use of blanket purchase orders. The district should analyze historical purchasing data to determine trends in the use of BPOs. Identifying trends can help develop controls to monitor the use of BPOs. For example, Gibson analyzed the BPOs by department and noted that during the audit period, five departments made up almost 50% of all BPOs. Table 8 outlines those figures. The district should determine the reasonableness of the prevalent use of BPOs overall, and especially in these departments. This combined with a review of the historical small dollar BPOs will help ensure the appropriate use of BPOs.

Table 8. BPO Volume – Top 5 Departments

Department	BPO Volume
266 – Fine Arts	1,030 (16%)
259 – Special Education	755 (11%)
283 – Transportation	578 (9%)
287 – Library Media Service	272 (4%)
265 - CTE	248 (4%)

Source: Gibson analysis of Blanket Purchase Order Listing, FY 2014 and FY 2015 YTD (as of 10/31/2014)

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Management Response B.2: *Management has recognized the high volume of BPOs used in the district. We have been communicating with budget managers regarding the importance of proper planning to ensure teachers are sufficiently prepared for student activities during the school year. We believe the intentional use of BPOs is an effective way to manage small purchases. We have also analyzed the use of BPOs by department, and have found the dollar amount of purchases, and size and frequency of use of BPOs to be reasonable and within acceptable standards. The use of smaller BPOs is necessary to ensure that purchases can be made quickly without extensive reliance on purchasing cards. For example, the Fine Arts Department uses BPOs for vendors like Target and Lowe's to enable teachers to make small, timely purchases related to student activities. Limiting the dollar amount of BPOs could result in inefficient operations and affect preparation for student activities.*

In the example provided by Gibson audit: 580 BPO's with the description "BPO Miscellaneous supplies to support IEP's:" Teachers within the District utilize $50 BPO's for them to spend on items/supplies to help with the instruction of the students. Fewer larger valued BPO would not work in this case. Special Ed statutes ("IDEA") make it clear that school districts are to execute purchases for the items that are the result of IEPs and the BPOs FBISD has in place to support IEPs are efficient and appropriate.

Management does agree that there are some areas where BPOs may be overused. We will review those areas while we work to improve operating procedures and processes regarding their use.

C.   Receiving

The district has a warehouse that houses about 200 stock items, mostly art and medical supplies. Over the past few years, the district moved to a desktop delivery model, by which goods are delivered by the vendor to the final location instead of all receiving occurring at the warehouse.

For the receipts that are processed at the warehouse, the warehouse receivers receive items into Oracle PeopleSoft by line item. They will compare the packing slip to the contents of the packages to ensure completeness. By using the PO number, warehouse receivers are able to pull the PO and log the items received. If the receipt is a warehouse stock item, the receivers will stock the items in the respective shelves within the warehouse. If the delivery is not a stock item, it is transported to the destination by the truck drivers.

The district has four drivers who deliver goods and inter-district mail. Each driver has a route and all the routes combined cover all schools every day. The receivers are also responsible for fulfilling warehouse stock item orders that are placed by schools/departments.

The deliveries to the final location to be received by the requester at the school/department. Typically this responsibility falls on the Bookkeepers and Secretaries. The receiving information in Oracle PeopleSoft is used by the Accounts Payable Department when processing payments on invoices. According to the Accounts Payable manual, receipts should be logged in Oracle PeopleSoft within 48 hours of physically being received.

Testing and Data Analytics

To continue Test 2 for all 60 POs, the audit team validated that all items were received within Oracle PeopleSoft. All the items received at the final location were received in the system by the individual who placed the requisition within Oracle PeopleSoft.

Gibson reviewed the ship-to locations for all requisitions in the audit period and noted that less than 1% of shipments are delivered through the warehouse.

Findings and Recommendations

Current receiving procedures at schools/departments do not consistently ensure timely receipt or proper safeguarding of assets. While decentralizing the receiving function is cost-effective for the district, it increases the burden on school staff, primarily the Bookkeepers and Secretaries. Based on interviews with Accounts Payable staff, items are not always received timely into Oracle PeopleSoft. The Accounts Payable Department has daily procedures whereby they follow up on any POs where an invoice has been received but receipt of goods has not been logged in the system. The focus group interview revealed the following feedback:

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- Goods are not always delivered directly to the Bookkeepers and they must spend time following up on items in order to receive the goods within Oracle PeopleSoft.

- If no one is available to receive items, some delivery services will at times leave packages in open areas. For example, there were two instances in the administration building where Gibson observed packages left by UPS outside the locked mail room. The mail room is located next to a building door. This proximity to an exit increases the risk of improper safeguarding of assets.

- The focus group also mentioned instances where vendors attempt to deliver large pallets or large quantity of items through the front door of the school. In at least one instance, a vendor attempted to deliver large quantity of items through the front door during school release. In many cases, the vendors are asked to return at another time or are re-directed to the warehouse. This can give rise to tension between school staff and vendors, as vendors likely have delivery schedules to keep and may not always welcome rerouting. Additionally, schools do not have delivery or loading zones to facilitate receipts.

Recommendation C.1: Review current receiving procedures and implement changes to address timeliness of receiving and safeguarding of assets.
The district should consider the level to which receiving goods at schools impacts the process and implement changes to facilitate this task. An example would be to implement "no delivery times" within contracts with larger vendors that ship directly to schools. The receiving process should be similar to that which would take place at the warehouse, reviewing completeness of items received versus what was ordered and receiving the items within Oracle PeopleSoft in a timely manner.

Review current receiving procedures and implement changes to address timeliness of receiving and safeguarding of assets:

Management Response C.1: Management acknowledges that the timeliness receiving of goods within the Oracle PeopleSoft system can be improved. Until recently, all teachers had access to PeopleSoft and could enter their own requisitions. Those teachers that used the system had difficulty with understanding the receiving process and the need to properly receive items in the system. This past year district restricted the number of employees able to order and receive items. This preliminary step will allow for easier follow up on outstanding purchase orders. In the future, the district is looking to further restrict ordering and receiving to a limited number of responsible individuals at the campus. Additionally, the Business and Finance team has initiated monthly meetings to inform and train secretaries and bookkeepers on best practices in all financial areas.

The district has had very few incidents of missing items from campuses or departments as a result of delivery procedures. It was stated in the audit report that UPS packages were observed being left by the mail room in the administrative building next to an entrance. The entrance to the building next to the mailroom is accessible by badged employees only. Additionally, orders containing large quantities are typically instructed to deliver directly to the warehouse. Instances where large quantities of items are delivered to a campus during AM arrival or PM dismissal are extremely rare and isolated. It is not in a

vendor's best interest to make deliveries during high traffic times such as the beginning or ending of the school day. It should also be noted that assets of a higher value require employee signature and would not be left unattended.

Large quantity of assets are being disposed by schools. Gibson took a walkthrough of the central warehouse and noted that the majority of the warehouse (approximately 75%) is being used to store disposed fixed assets. The Warehouse Manager leads the efforts to have online auctions for the disposed assets instead of discarding the assets. Historically, the auctions have been successful. The district made $151,000 in proceeds from auctions during FY 2014. Based on interviews with warehouse receivers, the audit team learned that there has been a spike in these assets coming to the warehouse. The assets included desks, cafeteria tables, furniture, computers, and musical instruments, among others. At times, schools in need of a desk or fixture may contact the warehouse to see if that fixture is available for the school to take and use.

Recommendation C.2: Implement procedures regarding when assets may be disposed.

Policy CI (Local) outlines discusses school property disposal, which refers to administrative discretion when disposing unnecessary property. Given the large quantity of items being disposed, the district should consider implementing procedures that would further outline what the administrative discretion entails and who specifically would have final determination to decide if a specific asset is ready for disposal. This can help ensure that the district is not disposing of assets that have larger value than what is being recovered through auctions or that the items should not have been disposed of initially.
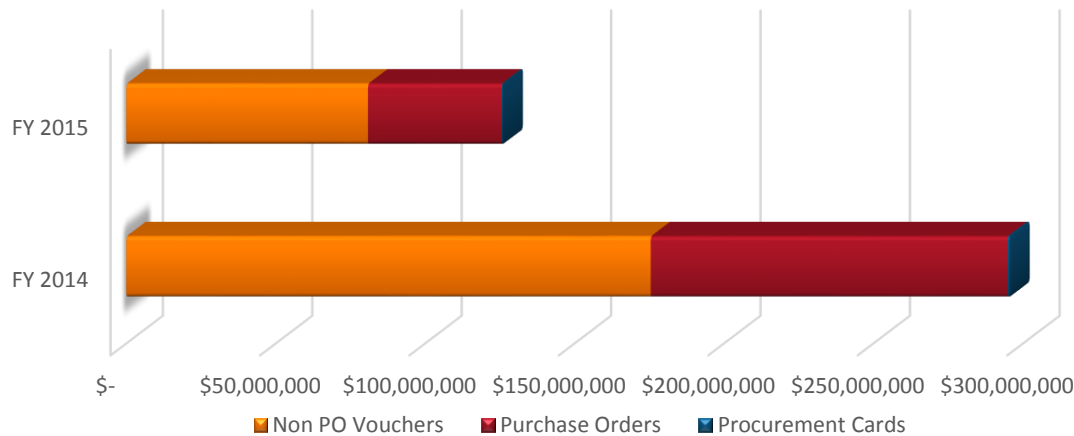
> *CI (Local) – The Superintendent or designee is authorized to declare District materials, equipment, and supplies to be unnecessary and shall dispose of unnecessary materials, equipment, and supplies for fair market value. If the unnecessary property has no value, the Superintendent of designee may dispose of such property according to administrative discretion. Items obtained as federal surplus shall be managed according to federal regulations.*

Management Response C.2: Management disagrees. According to district policy, the budget manager is the steward of fixed assets for their location/department. The budget manager decides on the condition of the asset and the decision for disposal and is required to sign the disposal form that is sent to the warehouse along with the item being disposed. The District believes this is the appropriate level of review for disposal. When the state budget cuts occurred several years ago, non-staff spending was reduced. However, when the state increased funding in the past two years, FFE (Furniture, Fixtures, Equipment) expenses have increased resulting in more disposals of old and outdated fixed assets. Further, the Purchasing department is in constant contact with the Warehouse Manager to see if current item requests can be filled through the use of surplus items stored in the warehouse.

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D. Payables and Disbursements

The district has four major avenues of disbursements: 1) payment on purchase orders, 2) payment on PCards, and 3) payment on non-PO vouchers, which would include reimbursement for employee and non-employee travel. Figure 3 identifies the percentage that each of the aforementioned categories makes up, in terms of dollars paid during the audit period.

Figure 3. FY 2014 and FY 2015 YTD (4 months) Disbursement Type

Source: Disbursements Listings, FY 2014 and FY 2015 YTD (as of 10/31/2014)

As shown in Figure 3, the majority of dollars paid are on non-PO vouchers and a very small portion is paid on PCards.

PCards can provide and efficient method of purchasing low value items. During the audit period a total of 21,779 transactions valued $250 and lower were processed through POs and PCards. POs made up 78% (17,093 transactions) of the total, while PCards made up 22% (4,686 transactions).

Purchase Order Payments

Payment on purchase orders occurs when an invoice is entered into Oracle PeopleSoft and the automatic "3-way match" is executed. This is a term that is used to define the matching of quantity and price on the vendor invoice to the PO and to the receiving information within Oracle PeopleSoft. The 3-way match validates that that the district received what was ordered and that the vendor is invoicing for what was received. A positive match indicates that the invoice can be paid.

The Accounts Payable department receives hundreds of invoices daily. The majority are received through mail; however, the department has an email address that vendors can use to email invoices. The Accounts Payable Specialist monitors the inbox on a daily basis and distributes the invoices to the corresponding Clerk, depending on the vendor. The daily goal is for Clerks to input all invoices that are received that day into Oracle PeopleSoft. There are approximately 20 vendors who have the ability to upload their invoices into Oracle PeopleSoft. These are the larger vendors, such as LakeShore, Blue Bell, Coca Cola, etc. In these

instances, the process is fully automated. There are also instances where the invoice is received at the school or department. Those invoices are forwarded to the Accounts Payable Department for payment.

All invoices are input into Oracle PeopleSoft when received. Oracle PeopleSoft checks for duplicate invoices as the invoices are being entered. If a duplicate invoice is entered, a warning will show up indicating to the Clerk that the invoice number already exists.

Every night an Oracle PeopleSoft job runs, which automatically matches all the invoices entered with the corresponding PO and receiving information. Each morning, the Clerks run an Un-posted Voucher report, which will list all transactions that did not pass the 3-way match. The predominant reason for un-posted transactions is due items not being received into Oracle PeopleSoft timely. The Clerks must investigate and follow up on all un-posted transactions. This is done by emailing the requester to validate whether the items have been received.

Additionally, if there is a price difference greater than 20% between the invoice and the PO (the invoice being larger), the transaction must be reviewed by the Accounts Payable Manager, who has the capability to approve price differentials greater than 20%. When the 3-way match is successful, the transaction is posted to the general ledger and a check may be issued during the next check run.

Check processing occurs twice a week. Oracle PeopleSoft automatically numbers the checks. The blank check stock is locked in the Accounts Payable Manager's office, which is also where the printer is located. The printer is user assigned, with only the Accounts Payable Manager and the Accounts Payable Specialist (as backup) having access to the print. After printing, the checks as assigned to each clerk who proof each check by comparing to the invoices being paid on that check, prior to mail out. A hard copy of the check and related invoices are filed in the Accounts Payable Department. The Account Payable Manager sends the positive pay file to the bank after the checks are processed. The positive pay file lists all check information for each check run, such that the bank knows which checks will need to be paid.

For wire transfers, the Accounting Associate processes the wire through the bank web site and the Director of Finance approves the wires. The Manager of Fixed Assets reviews all wire transactions and ensures that money is available in the appropriate accounts. Wires are used mostly for pay insurance premiums and make child support distributions from employee paychecks.

Purchasing Card Payments

Payments on PCards occurs every week. The Accounts Payable Manager posts a voucher in Oracle PeopleSoft equal to the sum of all the individual transactions approved through the date of payment. The district PCards are with JP Morgan Chase. When a cardholder uses their PCard, JP Morgan Chase uploads details of the transaction to Oracle PeopleSoft for the cardholder to review and submit receipts. Oracle PeopleSoft will route the transaction to the respective budget manager for approval, similar to the PO approval workflow. Upon approval, the detailed transaction is posted to the general ledger. Having this level of detail for PCard transactions will allow the district to ensure that PCard transactions are valid. The Purchasing Department oversees the issuance of PCards. Each cardholder has a limit based on their

position. Each PCard that is issued must be approved by the cardholder's Budget Manager and CFO (CFO only if cardholder is a Budget Manager).

Non Purchase Order Voucher Payments

Non-PO vouchers are used to request payment for travel expense reimbursement and anything else that would not be procured through a PO. Similar to POs, the requester would enter a request for a non-PO voucher that will be routed to the respective Budget Manager for review and approval. All vouchers require Budget Manager approval. After Budget Manager approval, the request is routed to the Accounts Payable department along with support for the payment being requested. In the case of contracted services the executed service agreement, along with the invoice, must be submitted for payment to be issued. The requester must enter the object code and the Budget Manager is responsible for ensuring the proper code is used.

Travel reimbursement vouchers are processed in the same manner, with the support for payment being receipts of travel expenditures. For mileage, the requester must submit a copy of the route taken and total miles traveled. All receipts, excluding meal receipts, are scanned to Oracle PeopleSoft. Meal receipts are retained by the cardholder at the schools/departments. The support submitted is reviewed by the Accounts Payable Travel Specialist Clerk to ensure that the reimbursement is in line with policy. In the current year, the district has moved toward payment of travel reimbursements via direct deposit. The plan is to pay all employee travel reimbursement via direct deposit by the next year.

Testing and Data Analytics

Gibson obtained a listing for all disbursements (42,318 payments) made during the audit period as well as a listing of all vouchers posted to the general ledger during that same period. Using these listings, combined with the PO listing previously mentioned, performed the following analyses:

– Sequential check numbers - Gibson reviewed the listing of payments to ensure sequential ordering. This ensures that the system captured all payments made during the audit period. There were no unusual gaps in the sequence.

– Confirming POs - Confirming PO is a district term used to define improper issuance of POs (e.g., PO was issued after the delivery of goods). The Purchasing Manual specifically defines these POs as an improper PO.

> *Purchasing Manual: Confirming PO Definition - "An improperly placed order where the goods and/or services have been supplied by the vendor before the Purchase Order has been issued from the Purchasing Department and is typically considered impermissible"*

Various confirming POs were identified in the sample for Test 2. To further identify the prevalence and magnitude of confirming POs, Gibson performed a detailed analysis on POs that were

processed and paid within the audit period. A total of 39,077 individual POs were processed and paid in the audit period. For each of those POs, Gibson compared the invoice date to the PO date. The logic being that if the vendor invoice date is prior to the PO date, the PO was issued as a confirming PO. The Findings and Recommendations below provide further details on this issue.

–   Unusual invoice dates - Gibson reviewed invoice dates of all the invoices paid during the audit period and identified 63 invoices with dates older than 3 years. Of those, 28 were determined to have incorrect dates due to keying errors when the invoices were entered into Oracle PeopleSoft. With thousands of invoices being manually entered into Oracle PeopleSoft, it is not entirely unreasonable to expect some data input errors. In this instance, since Oracle PeopleSoft does not age invoices, the invoice date entered does not impact the timing of payment after the invoice is received. However, it is important to note that some input errors occur.

–   Duplicate Payments - Gibson reviewed the voucher listing for the audit period to identify possible duplicate payments (e.g., same invoices being paid twice) and did not identify any such instances. In this analysis, Gibson was looking for a payment to the same vendor for the same invoice and for the same amount.

From the listing of the disbursements, Gibson selected 20 travel reimbursements, 20 non-PO voucher payments, and 15 PCard transactions for testing.

For testing of travel reimbursement transactions (Test 3), Gibson validated the following:

–   Budget Manager approval of reimbursement
–   Accounts Payable review of reimbursement support
–   Appropriate budget code
–   Adequate support for reimbursement
–   Compliance with district travel policy
–   Timely payment

For testing of non-PO voucher transactions (Test 4), Gibson validated the following:

–   Budget Manager approval of voucher
–   Accounts Payable review of voucher
–   Appropriate budget code
–   Adequate support for payment, including contract for service
–   Timely payment

For testing of PCard transactions (Test 5), Gibson validated the following:

–   Budget Manager approval of transaction
–   Accounts Payable review of transaction
–   Transaction was within credit limit
–   Appropriate budget code

– Receipts for transaction
– Timely payment

Gibson also obtained a listing of all PCard holders and selected 10 cardholders for approval testing (Test 6). For each cardholder selected, validated approval of card and assigned credit limit.

To complete Test 2, Gibson performed the following:

– Matched third party invoice to PO and receiving information.
– Validated that any invoice/PO differences greater than 20% were reviewed by the Accounts Payable Manager.
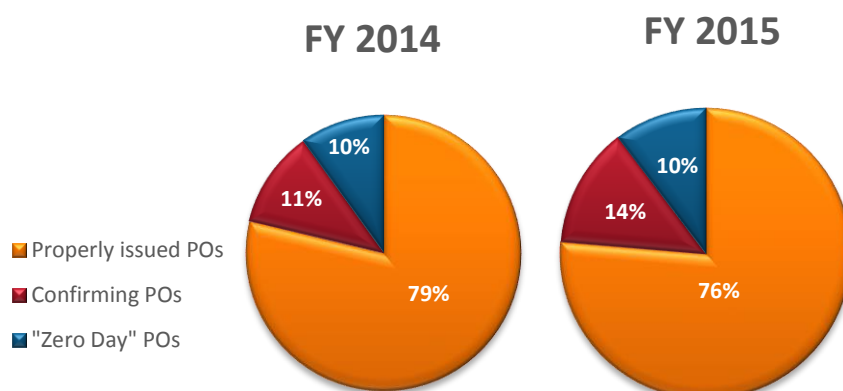– Validated timely payment.

Findings and Recommendations

Confirming POs are prevalent. During interviews, Gibson noted that the Purchasing and Accounts Payable Departments were aware that confirming POs did occur. However, the general perspective was that those were rare. Of the 60 PO transactions tested, 18 (30%) were confirming POs.

The entire PO database[2] showed lower but still significant percentages. Figure 4 displays the percentage of confirming POs during the audit period, broken down by fiscal year. In the analysis, Gibson also identified several POs where the PO date matched the invoice date (labeled "Zero Day" POs in chart).

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[2] The PO database is used to describe all entirety of POs processed and paid during the audit period (e.g., 39,077).

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Figure 4. Percentage Distribution of Total PO Count by Type, FY 2014 and FY 2015

Source: Gibson analysis of Purchase Order and Disbursements Listings, FY 2014 and FY 2015 YTD (as of 10/31/2014)

While the Zero Day POs are not being categorized as confirming POs for purpose of this assessment, it is important to note that there is a likelihood that some of those could also be confirming POs in the sense that the receipt of the invoice triggered the PO and the PO was expedited within Oracle PeopleSoft on the same day. While this may not be the case for all 10% of the Zero Day POs, it is important to consider the volume of those instances when fully evaluating the total possible magnitude of confirming POs.

In terms of PO dollars paid, the results are similar. Table 9 presents the dollar value of paid POs by PO type for all PO transactions during the audit period.

Table 9. POs by Type FY 2014 and FY 2015 - Dollar Values

PO Category	FY 2014	FY 2015
Confirming POs	$18 million (17%)	$11 million (26%)
Zero Day POs	$3 million (3%)	$1 million (2%)
Properly issued POs	$87 million (80%)	$30 million (72%)

Source: Gibson analysis of Purchase Order and Disbursements Listings, FY 2014 and FY 2015 YTD (as of 10/31/2014)

Recommendation D.1: Perform analysis to better understand root cause of "confirming purchase orders" and implement control procedures to eliminate them.
The district should analyze historical purchasing data to determine trends in confirming POs and identify root causes for the prevalence of these items. Identifying root causes will help develop controls to better enforce and monitor the issuance of proper POs.

Gibson analyzed the confirming POs by department and noted that for both FY 2014 and FY 2015 over one-third of the confirming POs were generated from five departments (Table 10).

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Table 10. Confirming PO Volume – Top 5 Departments

Department	FY 2014 Confirming POs	Department	FY 2015 Confirming POs
283 – Transportation	311 (10%)	280 – Facilities & Maintenance	135 (9%)
280 – Facilities & Maintenance	281 (9%)	266 – Fine Arts	112 (8%)
268 – Special Programs	137 (4%)	283 – Transportation	86 (6%)
266 – Fine Arts	136 (4%)	257 – Staff Attorney	76 (5%)
016 - Ridge Point HS	131 (4%)	005 – I.H. Kepmner HS	67 (5%)

Source: Gibson analysis of Purchase Order and Disbursements Listings, FY 2014 and FY 2015 YTD (as of 10/31/2014)
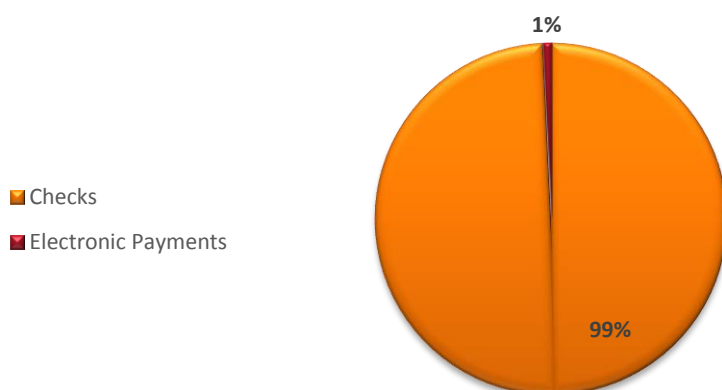
The analysis of this information can be used to better understand the needs of departments and determine root causes for these improper POs.

Additionally, while the intention of defining and discussing confirming POs within the Purchasing Manual is to better inform district staff regarding purchasing procedures, doing so can also send an unintentional message that confirming POs, while improper, are acceptable and are simply a part of the purchasing process. Removing discussion of Confirming POs from Purchasing Manual can help reinforce that these are not acceptable ways to procure items.

Management Response D.1: *Management concurs that confirming POs are too frequently used in the district. Beginning in 2013, the new leadership team began to establish procedures designed to discourage the overuse confirming POs. Since late 2013, there has been ongoing communication with budget managers, secretaries and bookkeepers regarding the need for more effective planning for the school year in order to reduce the number of confirming PO's. Confirming PO activity is reported to senior management on a regular basis. In addition, Finance is working with IT to automate the reporting of confirming POs to support the development of new procedures that would facilitate a more timely and efficient review. This programing request will be prioritized with all other PeopleSoft enhancements. We expect the new procedures will be in place for 2015-16.*

Large volume of checks are used to pay vendors. The district processed over 30,000 checks in FY 2014. In FY 2015, the district has taken steps toward use of electronic payment methods to pay vendors and employees (for travel reimbursements). Currently, a group of employees and vendors are being piloted for the use of electronic payments. This is a great step toward becoming paperless and increasing efficiency in the process. There is a plan to have all employees reimbursed through direct deposit by early 2015, however, there are no specific targets for vendors. Figure 5 shows how the percentage of electronic payments compared to checks during the audit period.

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Figure 5. Payment Methods FY 2014 and FY 2015

Source: Disbursements Listing, FY 2014 and FY 2015 YTD (as of 10/31/2014)

Recommendation D.2: Expand use of electronic payment methods for paying vendors.
The district should establish targets to have a larger portion of vendors set up under electronic payment methods. An initial review of the pilot groups can help determine the timeframe and process for making more significant strides in this move.

Management Response D.2: Management supports the recommendation that electronic payment options for vendors needs to be expanded. The initial focus of FBISD Finance was to focus on the large dollar accounts. These efforts have been successful. The percentage of dollar spending is 61% Wire Transfers and 39% Checks.

During the past year, Accounts Payable has worked with vendors that have provided FBISD with their banking information on their invoices to have payments made through Automated Clearing House (ACH). Purchasing has included the Vendor ACH option with all new bid packages. Design and Construction has also given their vendors the option to pay through ACH.

Employee reimbursement is now done through ACH. We began to pilot ACH payment for employee reimbursement October 7, 2014. This pilot effort was successful. Effective January 1, 2015, all employee reimbursement will be performed via ACH. Increasing the percentage of payments issued via ACH is part of our strategy to improve the effectiveness and efficiency of district operations.

All PCard transactions are not reviewed by a Budget Manager. Three Unapproved transactions were identified in PCard testing (Test 5). As a further analyses, Gibson reviewed the complete listing of PCard approvals (6,150 transactions) and identified a total of 332 (including the three identified in the sample) PCard transactions that were not approved by a Budget Manager. The transactions were related to 63 different employees PCards.

While the process dictates that all transactions be approved by a Budget Manager, lack of approval will not prohibit payment on PCards. In order to make timely PCard payments, vouchers are posted weekly

for all transactions that occurred and were approved that preceding week. There are instances, however, where due to the high volume of transactions, Budget Managers do not always review all transactions on a timely basis. In those cases, the Accounts Payable department follows up with Budget Managers to remind them of any outstanding transactions needing approval. When the PCard payment comes due, however, the AP department must process the transactions for payment despite lack of approval by the Budget Manager. This lack of review increases the risk of inappropriate transactions being paid.

Recommendation D.3: Implement controls around review of PCard transactions.
The district should implement a controls to reduce the risk of inappropriate transactions via PCards. For example, an analytical review of transactions can help identify improper use of PCards. Also, the district should identify recurring offenders and reinforce the PCard policies.

Management Response D.3: Management agrees with this recommendation. Budget manager review of PCard transactions is an essential element of a well-run, well-controlled PCard program. Procedures are in place to reduce the risk of inappropriate or unauthorized transactions, and we will continue to communicate expectations regarding budget manager review to all budget managers. To mitigate risk in this area, all such transactions are reviewed by the Accounts Payable Supervisor before payment is authorized. In addition, other procedures are in place to reduce the risk of inappropriate transactions. The CFO must approve the issuance of a new PCard. All employees approved for a district PCard must attend a mandatory training offered by Business and Finance prior to the issuance of the physical card. The Accounts Payable Supervisor spot checks PCard transactions on a monthly basis. The Campus Activity Fund Auditor reviews all PCard transactions when a campus is being reviewed. Transactions that have been deemed inappropriate have been rejected for payment, and the PCard user has been required to fund the purchase. Finally, our procedures include progressive discipline for budget managers and users that do not follow procedures, including the termination of PCard use.

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E. Other

During interviews, the audit team learned that the district previously aged invoices. Each month, the Business Office reconciles the Accounts Payable sub-ledger to the general ledger and reviews the aging of invoices. This ensures that invoices are paid on a timely basis.

Invoice Payments

The district pays invoices timely. The audit team obtained and reviewed the September 2014 reconciliation and noted that the district is timely paying invoices as the majority of the liability is in the "Not yet due" category. This is due to the fact that the district does not age invoices.

Table 11. Accounts Payable Aging, September 2014

Aging Category	Amount
Not yet due	$1,450,000
0-30 days	$54,000
31-60 days	$52,000
61-90 days	$130
Over 90 days	$(16)

Source: September AP to GL Reconciliation

Performance Measurement

Performance measurement is an important aspect of ensuring customer satisfaction of any department. Effective performance reporting helps to improve the efficiency and effectiveness of district operations and provides district leadership, the board, and the general public more insight as to what is going on behind the numbers in the budget line items. Performance measurement also helps district leadership hold departments accountable for results.

Performance measures and evaluation procedures do not exist. There are currently no measures to evaluate customer satisfaction or performance of the Purchasing and Accounts Payable Departments.

Recommendation E.1: Implement performance measures to monitor efficiency and customer satisfaction. The district should implement methods to review performance of the Purchasing and Accounts Payable Departments. This can be accomplished through developing Key Performance Indicators (KPIs), such as:

1. Number of invoices and direct payments made per accounts payable personnel (FTE)
2. Number of AP checks processed per AP department FTE
3. Average age of Accounts Payable
4. Number of Accounts Payable check voids and reissues
5. Number of purchase orders processed per purchasing FTE
6. Average dollar value of purchase orders processed

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Surveys are also a great method to obtain feedback from district customers. A combination of customer surveys and performance reports will provide a robust framework for performance measurement.

Management Response E.1: Management concurs with the use of surveys to obtain feedback from district customers, especially with regard to customer service. Management also concurs with the suggestion to implement performance measures, but only to the extent that the results of the measures are actionable and will impact decision making with the additional requirement that the production of most measures is automated. For example, measures 1, 2 and 5, would be valid if there was uniformity among invoices and purchase orders. Some invoices and purchase orders are routine, but others are much more complex. Regarding the aging of Accounts Payable, it used to be district practice to hold processed checks for 30 days. Due to the minimal gain in investment return and the goodwill generated from quick payments, checks and ACH's are sent out as quickly as possible. The delay typically is caused by receiving not done promptly or correctly. This should be addressed by the reduction of employees with access to PeopleSoft. Finally, Accounts Payable check voids and reissues are very rare.

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Appendix A

Interviewee	Date
Rick Coulter, Interim Director Materials Management	10/27/2014
Steven Bassett, Chief Financial Officer	10/27/2014
Libby Koppa, AP Clerk	10/27/2014
Barbara Mucka, AP Clerk	10/27/2014
Campus/departmental secretary focus group (6 participants)	10/27/2014
Charles Dupre, Superintendent	10/28/2014
Hester Abadie, AP Supervisor	10/28/2014
Robert Langston, Asst. Director of Materials Management	10/28/2014
Gloria Truskowski Asst. Director of Materials Management	10/28/2014
Kelly Kelly, Buyer	10/28/2014
Lisa Whilhelm, Buyer	10/28/2014
Minnie Martinez & Helen Norman, Purchasing Clerks	10/29/2014
Kathleen Booker, Buyer	10/29/2014
John Bridges, Warehouse Manager	10/29/2014
Joseph Reyes, Assistant Manager	10/29/2014
Pedro Diaz, Assistant Manager, Textbooks Warehouse	10/29/2014
Bridget Morrison, Risk Management Manager	10/29/2014
Burnete Smith , Paralegal	10/29/2014
Pete Rodriguez and Ronnie Smith, Receivers	10/30/2014
Cynthia Rincon, Internal General Counsel	10/30/2014
Paulette Guidry, Oracle PeopleSoft Security Analyst	10/30/2014

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Appendix B

Fort Bend ISD CSP - Construction Criteria and Evaluation Weights

	Criterion	Points	Scoring	Points Assignment
1	Purchase price	30	Proportional calculation based on lowest bidder who receives all 30 points Other bidders receive a percentage of the total points.	Purchasing Department
2	Vendor's experience	15	Based on submission of information by vendor 10-15 = experience in similar scope of work 6-9 = some experience 0-5= little or no experience	Evaluation Committee
3	Quality of vendor's goods or services	15	A numerical value computed from electronic reference forms scaled from ten (10) questions asked of references provided by vendor. NOTE: The Purchasing Department issues questions and receives responses within a designated timeline.	Purchasing Department
4	Quality of vendor's response in the proposal	10	Based on the overall proposal information 6-10= Responded to all requirements 0-5 = Did not respond to all requirements	Evaluation Committee
5	Vendor's safety record	5	5 = EMR of .50 or less 4 = EMR 0.51-0.85 3 = EMR 0.86-0.99 0 = EMR greater than 1.0	Purchasing Department based on Vendor's EMR submission
6	Vendor's proposed personnel-certifications, qualifications, experience	5	5 = Information on personnel provided as appropriate 0 = No information provided	Evaluation Committee
7	Assessment of Submitted Project Plan and Schedule for each package	10	6-10 = Project plan and schedules met most or all district requirements 1-5 = Project plan and schedules met some district requirements 0 = Project plan does not meet the needs of the district	Evaluation Committee
8	Past Experience with FBISD and other school districts	5	5 = Past positive relationship with District 3 = Past relationship with other school districts 0 = Past negative relationship with District	Purchasing Department
9	Percentage of bonding capacity expended with the inclusion of this contract	5	5= information provided 0= No bonding information provided	Purchasing Department

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