

Purchasing and Payables Follow-up Audit

*for the Fort Bend Independent School
District*

PREPARED AND SUBMITTED BY:

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Introduction

Executive Summary

This internal audit report provides an assessment of Fort Bend Independent School District's (Fort Bend ISD/the District) progress in implementing the recommendations from the 2015 *Purchasing and Payables Audit*. The Fort Bend ISD Board Audit Committee approved this follow-up audit as part of Gibson Consulting Group's (Gibson) fiscal year 2019 audit plan.

Table 1 provides a summary of the 11 recommendations made in the initial audit report along with Gibson's assessment of the implementation status for each as of January 2019. Each of the 11 recommendations was determined to be either Complete (4), Substantially Complete (1), or Partially Complete (4). Management did not agree with recommendations B.1 and C.2 and therefore were not assessed as part of this follow-up audit and marked as such.

The Purchasing Department made significant progress in streamlining the contracting process, while the Accounts Payable (AP) Department achieved many objectives in increasing the number of electronic vendor payments and implementing strict controls over Purchasing Card (P-Card) transactions. However, as evidenced in Table 1 and Figure 1, implementation has not been completed for the majority of recommendations. The lack of sufficient audit evidence and meaningful data supporting management implementation resulted in many recommendations being deemed as partially complete by Gibson.

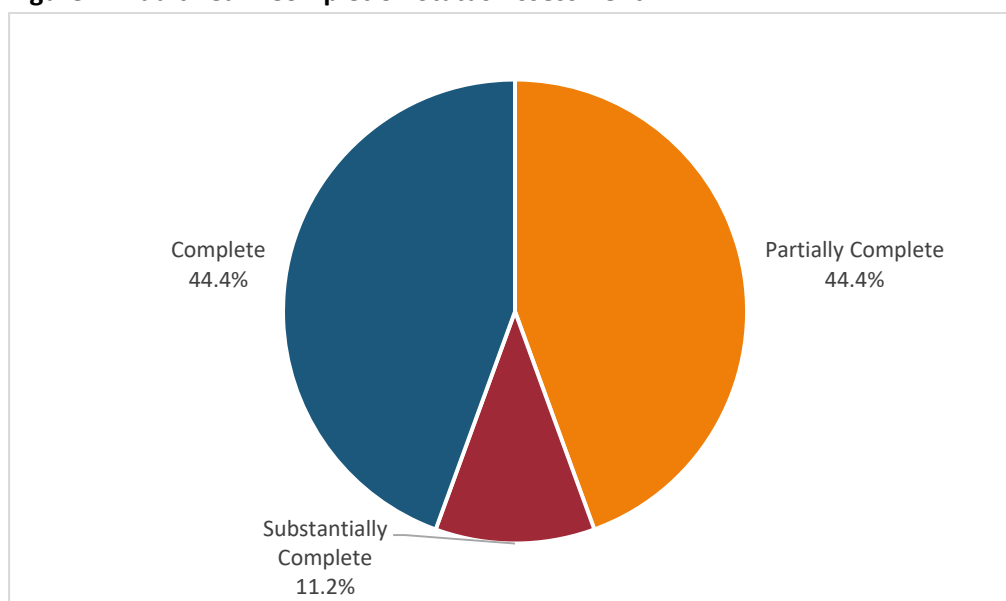
Table 1. Summary of Follow-up Audit Results

Recommendation	Management's Evaluated Status	Gibson's Evaluated Status
Recommendation A.1: Standardize level and format of documentation for all criterion evaluated when awarding contracts.	Complete	Complete
Recommendation A.2: Perform analysis to better understand root cause of improper contracts and implement control procedures to eliminate them.	Complete	Substantially Complete
Recommendation A.3: Streamline contract (<\$50,000) execution process.	Complete	Complete
Recommendation B.1: Modify Oracle PeopleSoft configuration to exclude revenue codes for purchase orders.	Not Assessed	Not Assessed
Recommendation B.2: Implement control procedures to better monitor use of blanket purchase orders.	Partially Complete	Partially Complete
Recommendation C.1: Review current receiving procedures and implement changes to address the timeliness of receiving and safeguarding of assets.	Partially Complete	Partially Complete

Recommendation	Management's Evaluated Status	Gibson's Evaluated Status
Recommendation C.2: Implement procedures regarding when assets may be disposed.	Not Assessed	Not Assessed
Recommendation D.1: Perform analysis to better understand root cause of “confirming purchase orders” and implement control procedures to eliminate them.	Partially Complete	Partially Complete
Recommendation D.2: Expand use of electronic payment methods for paying vendors.	Complete	Complete
Recommendation D.3: Implement additional controls for the review of Purchasing Card (P-Card) transactions.	Complete	Complete
Recommendation E.1: Implement performance measures to monitor efficiency and customer satisfaction.	Complete	Partially Complete

Figure 1 shows the percentage completion, by status category, of all recommendations assessed in his follow-up audit.

Figure 1. Audit Team Completion Status Assessment



Source: Gibson Consulting Group, January 2019

Audit Approach

To perform the follow-up audit, Gibson triangulated data from a variety of sources, including extant data analysis, interviews, and audit testing. Fort Bend ISD leadership maintains an Implementation Dashboard to track and report progress on the 11 recommendations from the 2015 *Purchasing and Payables Audit*. This dashboard was used to provide the District’s perspective regarding the status of each recommendation and gave insight for interview scheduling and testing approaches.

Gibson conducted a site visit at the District on January 15-16, 2019 to interview staff responsible for implementing the initial audit recommendations (see complete list of interviewees in Appendix A). The selection of interviewees was driven by the aforementioned Implementation Dashboard and the interview roster from the previous audit conducted in 2015. Management provided responses to each recommendation made in the 2015 audit. Interviewees were questioned on those Management responses and the implementation status quoted in the Dashboard to understand what work and steps have been performed to ameliorate the identified issues.

The audit team focused testing efforts on areas where exceptions occurred in the previous audit and to corroborate leadership's recommendation implementation status. Table 2 provides a summary of the tests performed and the corresponding sample size tested.

Table 2. Summary of Testing Approach

Test Number	Sample Size	Test Overview
Test 1: Proposals and Bids	5	A sample of proposals and bids was selected to assess thoroughness of evaluation, accuracy of dates, and appropriateness of approvals.
Test 2: P-Card Transactions	10	A sample of P-Card transactions was selected to assess appropriateness of review and approval.
Analytic 1: Blanket PO Usage	N/A	A listing of Purchase Orders used during FY 2018 and FY 2019 YTD* was obtained and analyzed to determine if Blanket Purchase Order usage was appropriate and consistent with Management's procedures.
Analytic 2: Confirming POs	N/A	A listing of Purchase Orders used during FY 2018 and FY 2019 YTD was obtained and analyzed to determine if the appropriate process for inputting POs was followed.
Analytic 3: Vendor Payment Method	N/A	A listing of all disbursements made during FY 2018 and FY 2019 YTD was obtained and analyzed to determine if the prevalence of electronic payments has increased.

*Note: FY 2019 YTD is comprised of July 1, 2018 – November 30, 2018

Through data analysis, interviews, and audit testing, the audit team attempted to verify actions taken by the Department to address each of the audit recommendations.

The remainder of this report includes the following information for each recommendation:

- A summary of each recommendation contained in the 2015 *Purchasing and Payables Audit* report (and corresponding page number)
- Fort Bend ISD Management's response to each recommendation (included in the 2015 audit report)
- The most recently reported status for each recommendation provided by Fort Bend ISD (as of December 2018)
- Gibson's follow-up audit verification and assessment for each recommendation

- Fort Bend ISD Management's response to each of Gibson's follow-up assessments

This report does not reiterate the commendations and background information documented in the original report, as the purpose of this follow-up audit report is to provide implementation status updates for Gibson's initial recommendations.

Follow-Up Audit Detailed Results

Competitive Bidding Process and Contracting

Recommendation A.1: Standardize level and format of documentation for all criterion evaluated when awarding contracts. (page 12).

The criteria used to evaluate vendors and award contracts should be completely and consistently documented, regardless of which Buyer is overseeing it. A criteria sheet, summary tabulation sheet, scoring sheets for each evaluation committee member, and the Buyer's scoring sheet should be retained for each bid or proposal.

2015 Fort Bend ISD Management Response: *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.*

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management's Status Assessment: Complete

Audit Team's Follow-Up Assessment: Complete

Subsequent to the 2015 audit, the Purchasing Department developed a new evaluation matrix with expected weights for each of the nine categories, as included below.

- Purchase price (20 points) – The minimum required number of points is 20. This can be lowered with the Director of Purchasing's approval.
- Reputation of the vendor and of the vendor's goods or services (5 points) – This amount can be raised or lowered by the department with the Director of Purchasing's approval.
- Quality of the vendor's goods or services (15 points) – This amount can be raised or lowered by the department with the Director of Purchasing's approval.
- Extent to which the goods or services meet the District's needs (20 points) – This amount can be raised or lowered by the department with the Director of Purchasing's approval.
- Vendor's past relationship with the District (10 points) – This amount can be raised or lowered by the department with the Director of Purchasing's approval.

- Long-term cost to the District to acquire the Vendor's goods or services (5 points) – This amount cannot be raised or lowered.
- Extent to which the vendor agrees to the District's Standard Form of Agreement (10 points) – This amount cannot be raised or lowered.
- Insurance requirements (5 points) – This amount cannot be raised or lowered.
- Vendor's principal place of business is in the state of Texas, or employs 500 people in this state (this is optional but cannot be done using federal funds) – Points can be assigned here based on Buyer, requestor, and Director of Purchasing discretion. Typically, points are only assigned here for "on-call" vendor needs, such as automobile towing or critical IT repairs.

The evaluation matrices are to be completed for all Request for Proposals (RFP) and bids (RFB). After the matrices are completed, electronic copies are maintained. The Director of Purchasing will review all evaluation matrices prior to submission to the Board to ensure that appropriate point assignment has occurred.

To obtain evidence of implementation, the audit team viewed a sample evaluation matrix, noting that criteria required by TEC Sec. 44.031 (b), stated in the bulleted list above, were appropriately included. Further, the audit team obtained a list of all RFB/RFPs issued during 2017-18 and 2018-19. Five samples were selected for testing. Gibson obtained the evaluation matrices for each bid to ensure appropriate completion. The results of "Test 1: Proposals and Bids" substantiated that the final evaluation matrix was completed and properly applied for all samples.

Based on the audit evidence gathered during interviews and testing, the audit team concludes that this recommendation is completely implemented.

Recommendation A.2: Perform analysis to better understand root cause of improper contracts and implement control procedures to eliminate them. (page 12).

The 2015 audit found that many contracts were submitted after services were already provided. To determine the cause of the delay, the audit team recommended that Management perform a root cause analysis.

2015 Fort Bend ISD Management Response: *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. 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.

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management's Status Assessment: Complete

Audit Team's Follow-Up Assessment: Substantially Complete

As a result of Management's analysis, lack of training within departments, lack of contract review, and length of processing time required to enter into a contract were determined to be the three primary drivers of improper contracts. To address these issues, the Purchasing Department has taken various steps. The Purchasing Department began holding business review meetings with certain departments to inform department leadership and staff of the proper procedures for contracting with vendors. According to Management, this has reduced the number of improper contracts. Purchasing updated the Universal Contract Request form to include a requisition number, effectively linking back the contract to a requisition subject to Purchasing review and approval. This update has facilitated new review requirements, where the Buyers in the Purchasing Department must review all contract requests. The Director of Purchasing will then approve the procurement before contract review occurs in Legal Services. This review requirement has not yet been formally included in the Purchasing Department procedural manual, though the Department is in process of doing so. The length of processing time for a new contract has been reduced via steps taken within Legal Services, as discussed in Recommendation A.3.

Though Management has taken steps to reduce the number of improper contracts, further action is needed to fully implement this recommendation. A full training over contracting procedures and rules has not occurred. This wide-scale retraining would capture a larger audience than ad-hoc business review meetings and allow for more meaningful dialogue. Additionally, monitoring of contracts to detect problems, such as goods or services being provided prior to execution date, is not occurring. Without tracking and monitoring this data, Gibson cannot determine the efficacy of Management's implementation steps.

In "Test 1 – Proposals and Bids", the audit team reviewed all contracts entered into for four of the five samples, as one sample had only been board approved in January 2019. Each of the four contracts was properly executed, with contract performance occurring after the signing and approval dates.

Though the testing results indicated no exceptions, discussions with Management and a lack of measurable data results in Gibson concluding that the recommendation is substantially implemented.

2019 Fort Bend ISD Management Response: Management agrees with the Audit Team's assessment that this recommendation is substantially complete. Management intends to complete this item by June 30, 2020. Management will provide a full training to staff covering contracting procedures and rules, complete

Administrative Procedures updates and develop a mechanism to begin tracking infractions more accurately.

Recommendation A.3: Streamline contract (<\$50,000) execution process. (page 13).

During the 2015 audit, the audit team determined that the process for executing contracts below \$50,000 was completely manual in nature and time intensive. It was recommended that Management implement changes to shorten the process, such as creating online forms for vendors or developing request and approval capabilities within *PeopleSoft*.

2015 Fort Bend ISD Management Response: *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.

Original Implementation Decision: Implementation with Modification

Fort Bend ISD Management's Status Assessment: Complete

Audit Team's Follow-Up Assessment: Complete

Subsequent to the 2015 audit, Management substantially changed the contracting procedures for small value (<\$50,000) contracts.

The District has made a concerted effort to extend the length of contracts and opt for annual renewals instead of new contracts. Additionally, the District has created and launched an electronic Universal Contract Request (UCR) form, which was piloted in September 2018. This form is located on *SharePoint*

and is completed online. Using *SharePoint* rules, the UCR is automatically routed to the correct approvers and departmental e-mails. The audit team observed the UCR form and “how-to” guides created by the Legal Services department, which provided instruction on how and when to use the UCR form.

The evidence obtained through interviews and data observation resulted in Gibson concluding that the recommendation is completely implemented.

Procurement

Recommendation B.1: Modify Oracle PeopleSoft configuration to exclude revenue codes for POs (page 17).

The audit team discovered during the 2015 audit that refunds were being generated through the use of Purchase Orders, which is not considered to be best practice. It was recommended that the ability to process requisitions using revenue codes be removed.

2015 Fort Bend ISD Management Response: *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 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 t-shirts, 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.*

Original Implementation Decision: No Implementation

Fort Bend ISD Management’s Status Assessment: N/A

Audit Team’s Follow-Up Assessment: Not Assessed

Recommendation B.2: Implement control procedures to better monitor use of blanket purchase orders (page 18).

The 2015 audit discovered that blanket purchase order (BPO) use in the District was potentially excessive and inappropriate. It was recommended that the District analyze historic blanket purchase order usage and implement procedures to monitor and limit usage.

2015 Fort Bend ISD Management Response: *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.

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management's Status Assessment: Partially Complete

Audit Team's Follow-Up Assessment: Partially Complete

During interviews, Management expressed concerns that BPO usage remains high and inappropriate in some areas. Currently, Management is not formally tracking BPO usage but is intending to begin in 2019. However, Management has taken certain steps to reduce BPO usage. Before a BPO is authorized, the Purchasing Department requires that the BPO is tied to a contract for recurring services. In instances where the BPO does not cover an extended period of time, the requestor must include descriptive language regarding the purpose and use of the goods and services on the requisition. Additionally, the Purchasing Department is currently discussing BPO usage with each department to better understand the reason behind high usage. Management has also discovered that BPO usage may be necessary due to certain budgeting procedures. For example, the Fine Arts budget manager is responsible for the Fine Arts budget at each campus. Thus, if a BPO was not utilized for certain purchases, the budget manager would need to generate a requisition for each campus and the Purchasing Department would generate a purchase order for each campus. The use of a BPO in this instance is necessitated by the budget set-up, as generated individual purchase orders for each campus would require significant time for the Purchasing Department and budget manager. Management is currently investigating how to update budgeting procedures to better prevent the use of BPOs.

The audit team performed "Analytic 1: Blanket PO Usage" to determine the efficacy of Management's initiatives to reduce BPO usage. The audit team requested a list of all purchase orders (PO) entered into during 2017-18 and year to date (YTD) 2018-19. A reliable listing could not be provided. As such, the audit team used a disbursement file for the same time period, which included PO descriptions, PO amount, and a BPO indicator. However, this disbursement file does not represent a complete population of potential BPOs, as only those POs that have been paid are included on the report, potentially excluding many POs

that have been issued but not invoiced and paid. Due to the data restrictions, meaningful evidence could not be gathered from the analytic.

Though Management has invested resources into understanding the reasoning behind BPO usage, formal monitoring has not yet occurred. Based on the lack of available audit evidence and information gathered through interviews, Gibson concludes that this recommendation is partially complete.

2019 Fort Bend ISD Management Response: Management agrees with the Audit Team’s assessment that this recommendation is partially complete. Management intends to have this item complete by June 2020. Management intends to further investigate root cause of inappropriate BPO’s, train staff on appropriate use of BPO’s, update Administrative Procedures to address BPO rules and fine tune reports with our IT department in order to better monitor BPO usage.

Receiving

Recommendation C.1: Review current receiving procedures and implement changes to address timeliness of receiving and safeguarding of assets (page 21).

The 2015 audit found that timely receiving of assets into *PeopleSoft* was not always occurring. It was recommended that the District implement changes to facilitate this task.

2015 Fort Bend ISD Management Response: *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.

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management's Status Assessment: Partially Complete

Audit Team's Follow-Up Assessment: Partially Complete

Most assets are received by the warehouse, where workers will then enter the receipt into *PeopleSoft*, matching items and quantities stated on the purchase order to what was actually received. The assets will then be routed to the final destination using District-owned delivery trucks. To decrease the lag time with asset receipt in the warehouse, certain procedural changes were made.

- Paperless Receiving – The warehouse previously operated in a paper-intensive environment, which resulted in delays for receiving assets. Purchase orders are now electronic, allowing warehouse workers to quickly query the item in *PeopleSoft* to facilitate matching the received quantity and item to the purchase order amount.
- Weekly Comparison of Floor to Received Items – Each week, warehouse managers will walk the floor, comparing what has been physically received by the District to what is listed in *PeopleSoft* as received. This helps highlight any assets that have not been appropriately recorded.
- Vendor Communication – Communicating with vendors is more frequent and delivery times are better scheduled and more efficient.

Regarding the safeguarding of assets, Management stated that there have been no issues with asset theft that resulted from inappropriate vendor delivery.

Though procedural changes have occurred in the warehouse, the audit team could not validate the effectiveness of the changes. The additional steps taken by warehouse management have not been formally documented and evidence of completion is not maintained.

Based on conversations with Management, timely receipt by schools remains a problem. Certain vendors will ship items directly to a school for a faster delivery time. When this occurs, school administration will not always receive the item in *PeopleSoft*, preventing Accounts Payable from establishing a proper match and paying for the item on a timely basis. Additional training has been provided to school secretaries and administrators on how to receive assets in *PeopleSoft* and on the importance of timely receipt. According to management, most items, except for large assets and other exceptions, should be shipped to the warehouse. This expectation has not been formalized in purchasing procedures, though management is currently compiling procedures. During management's procedure documentation process, decisions should be documented noting what types of items should flow through the centralized receiving or decentralized receiving processes. This documentation would guide management's review of Purchase Orders and help them determine if the "ship-to" location is appropriate. Periodically, management should review and update these "ship-to decisions" to ensure that receiving locations for items are appropriately mapped to receiving processes at schools and the central warehouse.

Through interviews with Management, the audit team is confident that warehouse changes have occurred to help reduce the delay in receiving assets. However, the results of the weekly comparison discussed above should be documented, which would show which assets are typically delayed in receiving. Additionally, the formal receiving procedures should be created by the Purchasing and AP Departments, outlining the requirement for all items, with a few exceptions, to be received by the warehouse. The District should consider adding language to purchase orders or contracts forbidding vendors from delivering items to schools. Because there are still delays associated with receiving assets at schools, the audit team concludes that the recommendation is partially complete.

2019 Fort Bend ISD Management Response: Management agrees with the Audit Team’s assessment that this recommendation is partially complete. Management intends to have this item completed by June 2020. Management plans to complete written procedures for receiving, provide staff training and create standing meetings with AP and Warehouse to resolve issues.

Recommendation C.2: Implement procedures regarding when assets may be disposed. (page 22).

The initial audit found that schools were disposing a large quantity of assets. The audit team recommended that the District implement procedures that would further outline the disposal decision criteria and designate who would have final determination to decide if a specific asset is ready for disposal.

2015 Fort Bend ISD Management Response: *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.*

Original Implementation Decision: No Implementation

Fort Bend ISD Management’s Status Assessment: N/A

Audit Team’s Follow-Up Assessment: Not Assessed

Payables and Disbursements

Recommendation D.1: Perform analysis to better understand root cause of “confirming purchase orders” and implement control procedures to eliminate them. (page 28).

During the initial audit, a large amount of purchase orders had dates subsequent to corresponding invoice dates. Fort Bend ISD refers to these as “confirming” purchase orders. It was recommended that the District perform an analysis to determine the causes of late purchase orders and implement controls to eliminate them.

2015 Fort Bend ISD Management Response: *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.*

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management’s Status Assessment: Partially Complete

Audit Team’s Follow-Up Assessment: Partially Complete

After the 2015 audit, Management took several actions to reduce the number of late/confirming purchase orders. A confirming PO report was created by the Purchasing and IT departments to facilitate quicker review of confirming POs. This report includes the budget manager responsible for the confirming PO, PO amount, supplier, and date. The report is reviewed monthly by the Leadership Council, comprised of all executive directors, assistant superintendents, the Director of Purchasing, the Director of Food Service, and varying members from IT. Each individual on the Leadership Council is then responsible for understanding why a confirming PO occurred under their budget responsibility and providing instruction to those who inappropriately processed them. The Director of Purchasing will also use the confirming PO report to highlight departments where the greatest usage occurs. Training will then be given to the department to prevent future confirming POs.

The Purchasing Department also sent letters to all vendors stating that issuing goods or services without a PO was forbidden, and that the District would not pay for unauthorized goods or services. Additionally, Buyers within the Purchasing Department have been tasked with anticipating the needs of their assigned departments and/or campuses. Buyers will regularly communicate with principals and department heads to understand what potential purchases are needed. This helps ensure that appropriate protocol is followed. Finally, the Purchasing Department is currently developing more thorough purchasing standards to be included in the purchasing manual issued to employees.

To validate the effectiveness of Management's actions, the audit team performed "Analytic 2: Confirming POs". The audit team used a disbursement listing, discussed earlier in Recommendation B.2, as the population of invoiced and paid purchase orders.

- During 2017-18, approximately 29,000 purchase orders were processed and paid. Of the 29,000 purchase orders, approximately 2,640, or 9.1 percent, were confirming purchase orders.
- During YTD 2018-19, approximately 13,800 purchase orders were processed and paid. Of the 13,800 purchase orders, approximately 1,070, or 7.8 percent, were confirming purchase orders.

The evidence gained through data analysis indicates that while some improvement has occurred, a high level of confirming purchase orders is still present. The District should continue to train and monitor confirming purchase orders. A goal for an acceptable level of confirming purchase orders should be determined to better guide efforts. Based on the evidence obtained through interviews and data analysis, the audit team concludes that this recommendation is partially implemented.

2019 Fort Bend ISD Management Response: Management agrees with the Audit Team's assessment that this recommendation is partially complete. Management intends to complete this item by June 2020. We cannot completely eliminate confirming purchase orders, but are committed to reduce them as much as possible. Management intends to continue to monitor transactions and continue our efforts to reduce occurrences - educate, change mindset, train and coach. Management will also continue to configure the "Confirming Purchas Order Report" so that it includes sufficient data that allows meaningful analysis.

Recommendation D.2: Expand use of electronic payment methods for paying vendors. (page 30).

During the 2015 audit, approximately 99 percent of payments were made via paper check. It was recommended that the District develop targets for electronic payment participation by vendors and actively work to achieve those goals.

2015 Fort Bend ISD Management Response: *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.

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management's Status Assessment: Complete

Audit Team's Follow-Up Assessment: Complete

Subsequent to the 2015 audit, Management added a requirement to the Fort Bend ISD "Fiscal and Budgetary Strategy" document, in August 2015, stipulating "to the extent practical, all vendors doing business with the District must be able to accept payments electronically via ACH (automated clearing house)." A copy of the document was obtained by the audit team and reviewed. The "Fiscal and Budgetary Strategy" document serves as an overarching framework for how Fort Bend ISD conducts business and is used to guide departmental procedures.

To verify the enforcement of this requirement, the audit team performed "Analytic 3: Vendor Payment Method". Utilizing a listing of all disbursements made during Fiscal Year (FY) 2018 and FY 2019 YTD, which was provided by Management, Gibson calculated the percentage of payments made via electronic methods and by paper check. Gibson also analyzed the dollar amount of payments made by either method.

- In FY 2018, electronic payments accounted for 39.1 percent of all payments made, but comprised 65.0 percent of the dollar value of payments made.
- In FY 2019 YTD, electronic payments accounted for 39.7 percent of all payments made, but comprised 86.8 percent of the dollar value of payments made.

The analysis results listed above indicate a continued reliance on paper checks to process small transactions. Based on interviews, Management focused first on transferring the largest vendors to ACH payments and acknowledged that many small vendors still rely on paper-check payments. The large dollar value of electronic payments relative to the number of electronic payment transactions supports this claim. AP Management is also pursuing electronic payments outside of ACH. *Comdata*, an online payment solutions company, will be used as a "virtual credit card" that will replace vendors being paid on paper checks. The AP department is slowly rolling out usage of *Comdata's* service. The District will also earn rebates on the monthly invoice payments to *Comdata*.

Management has taken many positive steps towards increasing electronic payment participation and has a thorough plan for continually increasing participation. Based on the evidence obtained through interviews and data analysis, the audit team concludes that this recommended action is completely implemented even though the target results have not yet been achieved.

Recommendation D.3: Implement controls around review of P-Card transactions. (page 31).

The 2015 audit found many P-Card transactions without appropriate and timely budget manager review prior to payment. It was recommended that the District implement controls to reduce the risk of inappropriate P-Card transactions.

2015 Fort Bend ISD Management Response: *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.*

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management's Status Assessment: Complete

Audit Team's Follow-Up Assessment: Complete

In July 2018, the District created a P-Card auditor position. This individual is responsible for reviewing every P-Card transaction to ensure appropriateness and that supporting documentation is included. The P-Card auditor generates a report from *PeopleSoft* each week, which includes all P-Card transactions that have been made in a seven-day period. The auditor reviews every receipt that is attached to the budget-manager approved expenses to determine if the value is appropriately supported. Any non-compliant transactions are tracked in *SharePoint*, which is the District's intranet. The auditor will flag any pending transactions for review in her next week process. Additionally, the auditor will generate a report out of *PeopleSoft* that lists all expenses that do not have attached receipts. Transactions on this list will also be moved into *SharePoint* and follow an identical path discussed below.

SharePoint will send an e-mail to individuals included on the non-compliant transaction list if they have not corrected the error within one week. If an error remains after two weeks, *SharePoint* will send the auditor a notification. The auditor will then directly contact the individual to provide a final chance to correct the transaction. If the transaction is still uncorrected, a violation notice is sent to the individual, their budget manager, and their assistant superintendent. If the non-compliance occurrences are frequent or severe, the individual's card could be taken away or other administrative action can be taken.

Separate from transaction review, the auditor provides training to individual departments on correct P-Card usage and expense substantiation.

To validate the effectiveness of the controls implemented, the audit team performed “Test 2: P-Card Transactions”. The test results are summarized below:

- Seven out of ten tested transactions had timely, appropriate approval by the budget manager and included sufficient evidence supporting the transaction.
- One transaction did not have evidence of approval as the purchase was made by a budget manager. Prior to 2018-19, budget managers did not require approval for their P-Card purchases. This was subsequently changed in 2018-19, where the Superintendent must approve budget managers’ transactions.
- One transaction did not have evidence of approval and was not made by a budget manager. This is considered to be an exception.
- One transaction was approved by the P-Card auditor as a system malfunction routed the transaction to the incorrect individual. The P-Card auditor obtained approval evidence from the appropriate budget manager.

The audit team also obtained the non-compliant transaction list as of February 15, 2019. Thirty-three (33) transactions were included on the list and were flagged for various reasons.

- Unreconciled Transaction – 20 transactions. The transaction has not been appropriately approved by a budget manager.
- Tax Charged – 8 transactions. Sales tax was charged on these transactions. The cardholder must contact the vendor to have the charge removed.
- Receipt missing or insufficient – 5 transactions. The supporting documentation that was uploaded does not exist, is not sufficient, or does not support the total expense amount.

Based on the evidence obtained through interviews, data analysis, and audit testing, the audit team concludes that this recommendation has been completely implemented.

Other

Recommendation E.1: Implement performance measures to monitor efficiency and customer satisfaction. (page 32).

During the initial audit, the audit team found that no measures to evaluate customer satisfaction or performance of the Purchasing and Accounts Payable Departments existed. It was recommended that the District implement methods to review performance of the Purchasing and Accounts Payable Departments. Example Key Performance Indicators to monitor were given:

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

2015 Fort Bend ISD Management Response: *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.*

Original Implementation Decision: Implementation without Modification

Fort Bend ISD Management's Status Assessment: Complete

Audit Team's Follow-Up Assessment: Partially Complete

Through interviews, the audit team understands that the development and implementation of performance measures is a focus for 2018-19. Many measures are informally monitored in the Accounts Payable Department.

- AP Accounts on Hold
- Vouchers Processed by Person

- Overtime by Person
- Processing time
- Unposted Purchase Orders

The currently monitored performance measures should be finalized by the Accounts Payable Department. The AP Department should continue developing the list of possible performance measures based on set performance targets and goals established. Gibson recognizes the progress made towards implementation of the recommendation. However, effective analysis of performance measures is comprised of many additional tasks including:

1. Determining the data requirements for the proposed measures
2. Assigning responsibility for creating and tracking the measures
3. Agreeing on the frequency and use of the measures
4. Developing potential actions if a measure falls below the expected threshold

The Purchasing Department is currently defining what measures to monitor. The following measures could be considered.

- Confirming PO percentage
- Blanket PO percentage
- POs processed by Purchasing FTE
- Number of Purchasing Violations
- Number of Bids/RFPs awarded
- Number of Contracts Reviewed

Based on the evidence obtained during interviews, the audit team concludes that this recommendation is partially implemented.

2019 Fort Bend ISD Management Response: Management agrees with the Audit Team's assessment that this recommendation is partially complete. Management intends to complete this item by June 2020. Management will identify which KPI's are actionable and will impact decision making. We will then finalize how, and when the KPI's are tracked and reviewed.

Appendix A – List of Interviewees

- Steve Bassett, Chief Financial Officer
- Robert Scamardo, General Counsel
- Brenda Essenburg, Director of Purchasing
- Latrell Franklin, Assistant Director of Accounts Payable
- Joel Lopez, Assistant Warehouse Manager
- Kimberly Reeves, P-Card Auditor