

# MUNICIPAL AUDITING REPORT CITY OF ROANOKE



## **RCPS - Purchasing** **February 21, 2018**

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## AUDIT OBJECTIVES & SCOPE

### Audit Objectives:

1. To determine if goods and services costing more than \$100,000 effectively use RFPs and IFBs to encourage competition.

**Yes with Exceptions** – When available, the Purchasing Department utilizes existing contracts negotiated by other school divisions, localities, or the Commonwealth of Virginia. When such contracts are not available, Roanoke City Public Schools (RCPS) uses its own request for proposals (RFPs) and invitations for bid (IFBs) process. The Purchasing Department has a well-established RFP / IFB process that complies with State laws and regulations and encourages competition. RCPS published 53 RFPs/ IFBs from July 1, 2016, through December 7, 2017.

Developing appropriate specifications is one of the most challenging and critical aspects of the RFP/ IFB process. Good specifications provide adequate detail to communicate the quality of goods and services required so that vendors can be held accountable. They should not be arbitrary or brand-specific in any way that tends to limit competition.

Our review of a sample of specifications, pre-bid conferences, awards and vendor protests indicated that specifications were not arbitrary or limiting. We noted that specifications for one RFP could have been more clearly stated and formal responses to vendor questions could have been posted more promptly. One IFB was awarded to a sole bidder without a detailed cost estimate in the contract file for comparison.

2. To determine if competitive pricing is reasonably assured for goods and services costing \$5,000 to \$100,000 procured directly by departments.

**Yes with Exceptions** – Roanoke City Public Schools has a well-developed small purchases program that authorizes Principals and Department Managers to procure what they need with minimal paper work. We found that purchases from existing contracts or proprietary sources were appropriately supported, as were purchases requiring a quotation exception. While there was some variation in the documentation for purchases requiring quotes, departments overall made an earnest and successful effort to obtain competitive pricing.

We identified one purchase costing \$35,250 that garnered only one quote for which we concluded that department management had not made a sincere effort to comply with the Division's small purchase requirements. Controls over small purchases could be strengthened by incorporating sample-based monitoring procedures in the Purchasing Department.

All changes to purchase orders approved by Purchasing were supported by properly completed and authorized change order forms from the responsible departments. All changes appeared to be appropriate based on the description and supporting documentation on file.

3. To determine if purchasing cards are effectively managed to help ensure purchases are appropriate, authorized, and correctly accounted for in the Division's financial reports.

**Yes with Exceptions** – The basic framework for an effective purchasing card program is in place. Overall, purchases we reviewed were appropriate, approved, and properly accounted for. We noted a number of purchases did not include a description sufficient for supervisors to effectively link them to the job, building, project, etc., involved. A more comprehensive set of procedures and guidelines for the program need to be developed and documented,

Audit Scope:

We reviewed specifications development, vendor engagement, quotation and bidding processes for purchase requests exceeding \$5,000 as of October 31, 2017.

We looked at IFBs, RFPs, small purchase requisitions and associated change orders from July 1, 2016, through December 20, 2017.

We asked for all records of vendor protests on file at the time of our fieldwork.

We reviewed the design and function of controls for purchases under \$5,000 made with Division issued purchasing cards.

We looked at transactions from the inception of the purchasing card program in November 2016, through the end of November 2017.

**End of Audit Objectives and Scope**

## BACKGROUND

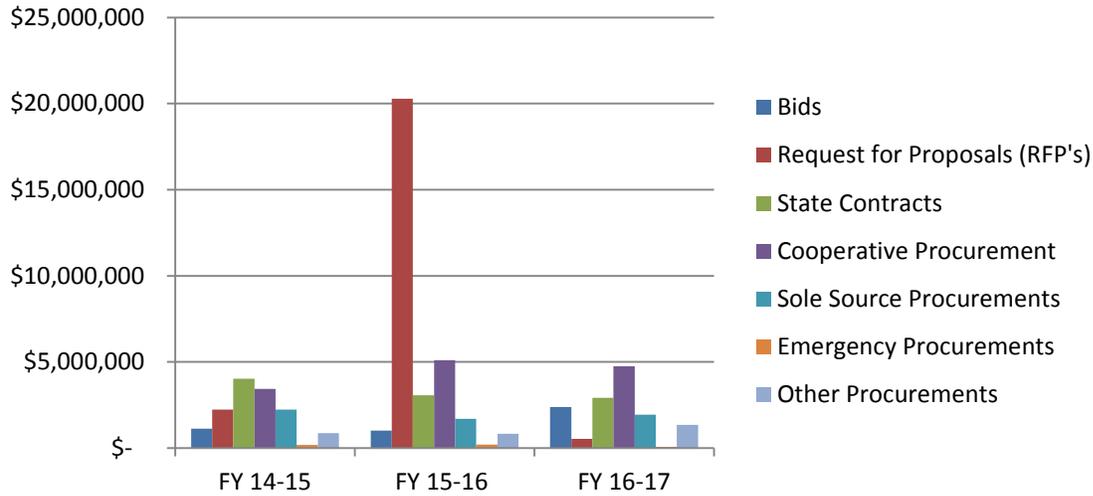
The Purchasing Department's primary objective is to help schools and departments procure goods and services in compliance with all applicable laws, regulations, and policies. These legal requirements incorporate the concepts of price, quality and best value. The department helps accomplish this objective by serving in the following roles:

- Develops and maintains purchasing procedures consistent with federal and state laws, as well as School Board policies.
- Provides training to employees with purchasing responsibilities
- Publishes requests for proposals, invitations to bid, and related addendums
- Reviews all purchase requests, purchase orders, change orders and contracts
- Administers the purchasing card program
- Prepares regular reports on procurement activity for the Administration and School Board

Every quarter, the Purchasing Department prepares a "Procurement Analysis," which is presented to the School Board by the Chief Financial Officer along with the "Financial Overview and Statements." The analysis shows the method used to procure goods and services and compares the mix in the current fiscal year with the previous one.

Procurement Type	FY 14-15	FY 15-16	FY 16-17
Bids	\$ 1,121,800	\$ 1,007,987	\$ 2,377,033
Request for Proposals (RFP's)	\$ 2,226,040	\$ 20,280,480	\$ 528,500
State Contracts	\$ 4,025,862	\$ 3,062,867	\$ 2,907,323
Cooperative Procurement	\$ 3,424,384	\$ 5,093,929	\$ 4,745,639
Sole Source Procurements	\$ 2,227,532	\$ 1,704,159	\$ 1,927,357
Emergency Procurements	\$ 175,289	\$ 199,288	\$ 75,058
Other Procurements	\$ 863,911	\$ 828,413	\$ 1,339,754
<b>Total</b>	<b>\$14,064,818</b>	<b>\$ 32,177,123</b>	<b>\$ 13,900,664</b>

## Procurement Analysis FY 15 - FY 17



The \$20,280,480 in RFP procurement included:

- Medical, Prescription, and Vision Coverage: **\$18,290,194**
- Dental Coverage: **\$1,093,328**

State contracts and cooperative procurement made up approximately 55% of all procurement (\$7,652,962) in FY 2017. These are contracts written by another Virginia locality, school division, or the Commonwealth of Virginia that were competitively bid or negotiated. A provision in these contracts allows other Virginia governmental agencies to obtain goods or services under the terms and pricing established in the contract. This provides the benefit of formal competitive procurement with less administrative burden.

Bids and RFPs accounted for 21% of the 2017 total procurement (\$2,905,533). These involve public notice, sealed bidding, and Purchasing’s direct involvement in the process.

Sole Source purchases accounted for 14% of all procurement (\$1,927,357). These purchases were largely from other government and non-profit agencies:

- \$893,704 with Virginia Western Community College for Dual Enrollment and Community College Access Program (CCAP)
- \$47,900 with YMCA of Roanoke Valley, Inc. for PE Programs (including summer programs), 2<sup>nd</sup> grade Water Safety Classes, and pool rental fees for high school swim teams
- \$43,500 with the Science Museum of Western Virginia for annual services and 21<sup>st</sup>

Century workshops

- \$10,200 with Virginia School Boards Association for BoardDocs services

*These agreements were 52% of total sole source procurements.*

Other procurements totaled \$1,339,754 (10%) and represent purchases under \$5,000 that schools and departments make with limited involvement of the Purchasing Department.

Emergency procurements were less than 1% of overall spending (\$75,058).

**How Is the Money Spent?**

Roanoke City Public Schools expends approximately 70% of its funds on personnel and related expenses. The remaining 30% is used for non-personnel expenditures. In FY17, General Fund non-personnel expenditures broke down as follows according to the unaudited Financial Statements:

Professional Services	\$17,966,735
Debt Service	\$14,274,185
Utilities	\$ 4,053,483
Miscellaneous	\$ 3,238,613
Materials and Supplies	\$ 1,927,139
Repairs and Maintenance	\$ 1,709,844
Equipment (additions & replacements)	\$ 1,453,284
Tech Software/On-Line Content	\$ 1,127,291
Gasoline, Oil and Lubricants	\$ 599,837
Leases and Rentals - Equipment	\$ 399,831
Insurance	\$ 392,995
Recruiting and Travel	\$ 348,432
Non-Acpt Tech Hardware	\$ 208,351
Leases and Rentals - Buildings	\$ 85,653
<b>Total Non-Personnel</b>	<b>\$47,785,673</b>

*This table excludes expenditures from the Food Services, Athletics, and Grant Funds.*

**Where Does the Money Go?**

The accounting system listed 9,309 vendors when we looked on November 16, 2017. Only 1,864 were shown as having received payments in FY17. The following table reports all payments from all funds to vendors for FY17:

# Vendors	FY 17 Total Payments	Total Amount
1,497	≤ \$5,000	\$ 1,369,011
317	> \$5,000 but ≤ \$100,000	\$ 6,701,639
37	> \$100,000 but < \$700,000	\$ 8,898,694
13	≥700,000	\$ 42,928,648

This shows that 13 vendors received \$42,928,648 (72%) of non-personnel dollars. The 13 vendors were:

Vendor Name	Purchasing Total
MOUNTAIN VALLEY TRANSPORTATION INC	\$ 10,537,997
SODEXOMAGIC, LLC	\$ 8,148,551
ROANOKE VALLEY REGIONAL BOARD	\$ 5,585,691
AMERICAN ELECTRIC POWER (Utility Billing	\$ 3,474,128
AVIS CONSTRUCTION COMPANY INC	\$ 2,605,784
DELL MARKETING L.P.	\$ 2,560,536
TREASURER, CITY OF ROANOKE	\$ 2,399,362
SOURCE4TEACHERS	\$ 2,191,673
CARILION OCCUPATIONAL MEDICINE	\$ 2,135,864
UNITEDHEALTHCARE	\$ 967,244
VIRGINIA WESTERN COMMUNITY COLLEGE	\$ 797,372
ROANOKE GAS COMPANY	\$ 789,357
RELIASTAR LIFE INSURANCE COMPANY	\$ 735,086

Laws and Regulations

All localities and school divisions must comply with the Virginia Public Procurement Act (VPPA), which governs public procurement in the Commonwealth. The act seeks to ensure:

- Public bodies obtain high quality goods and services at reasonable cost
- Procurement procedures are conducted in a fair and impartial manner with the avoidance of any impropriety (perceived or actual)
- All qualified vendors have access to public business
- No offeror is arbitrarily or capriciously excluded

- Competition is sought to the maximum feasible degree
- Procurement procedures involve openness and administrative efficiency
- Individual public bodies enjoy broad flexibility in fashioning details of such competition
- Rules governing contract awards be made clear in advance of the competition
- Specifications reflect the procurement needs of the purchasing body rather than being drawn to favor a particular vendor
- Purchaser and vendor freely exchange information concerning what is sought and what is offered

### Key Systems

The AptaFund system is used for purchasing and accounts payable. The ability to request and approve purchases is controlled through user rights assigned in the system. The employees in the Purchasing Department can approve purchase orders but cannot set up new vendors.

The RCPS Purchasing Department has access to Virginia's eProcurement system, eVA. This system can be used to post the Division's IFBs and RFP's, as well as providing state contracts from which the Division can purchase. Vendors can setup their own accounts on eVA so that they receive notifications when IFBs and RFPs are posted for goods and services they provide.

### Fifth Third Bank Purchasing Card

RCPS began developing a purchasing card program through Fifth Third Bank in May 2016. A phased-in approach was used to implement the program. As of the beginning of our audit, all users had been transferred over to Fifth-Third, and all Wachovia credit cards had been canceled.

P-Cards are used for small dollar expenditures, less than \$5,000, and typically include travel expenses, online purchases, or purchases for which the purchase order process isn't practical. Cardholders or a person designated in each department log into the Fifth Third online system to enter the account to be charged and attach the receipt. The expense coding is uploaded from the bank system and does not require manual keying. Expenditures through the purchasing card program break down as follows:

Vendor Card	FY17	FY18 (2/7/18)
Wachovia	\$417,805	\$60,639
Fifth Third	\$33,997	\$282,494
<b>Total</b>	<b>\$451,803</b>	<b>\$343,133</b>

Other Vendor Cards

The administration allows schools to utilize commercial credit cards from Wal-Mart and SAM's Club to purchase small value supplies and equipment. These purchases are entered into the AptaFund system manually, which requires entering requisitions that are subject to the normal approval workflows.

Vendor Card	FY17	FY18 (2/7/18)
Wal-Mart	\$58,130	\$33,438
SAMS	\$48,316	\$23,437
<b>Total</b>	<b>\$106,446</b>	<b>\$56,875</b>

**End of Background**

## Objective 1: Large Procurements (> \$100,000)

### Audit Objective:

To determine if goods and services costing more than \$100,000 effectively use RFPs and IFBs to encourage competition.

### **Yes – with Exceptions**

### Overview:

Whenever possible, the school Division utilizes state contracts and cooperative procurement to obtain goods and services at competitive prices. When these types of existing contracts are not available, the Division follows its own internal procurement processes. Professional services for individual projects expected to cost more than \$60,000 are procured through a request for proposal (RFP) process. Goods and non-professional services expected to cost more than \$100,000 are procured using an invitation for bids (IFB) process.

The Purchasing Department manages the RFP / IFB process with complimentary goals of ensuring compliance with laws and regulations and obtaining competitive pricing for goods and services. Administrative and operating departments write the specifications for the goods or services they need using a template provided by Purchasing. Departments also provide a cost estimate and identify the source of funding to be used for the project or purchase.

The Director of Purchasing reviews the specifications to help ensure they are clear and focus on performance that is not arbitrary or restrictive to competition. Brand names may be specified when mandatory due to existing systems, if there is a verified performance advantage, or as an example of required characteristics and performance. If used as an example, the specifications state that equivalent brands are acceptable.

Once the RFP or IFB is drafted, the Director of Purchasing prepares a Request for Approval to Publish form to circulate them for review and approval. The Deputy Superintendent typically approves these requests. The signed approval form is kept with the contract file in Purchasing.

Approved IFBs and RFPs are posted publicly for a minimum of 10 business days in the following places:

- RCPS Website
- Virginia's Procurement Website, eVA
- Roanoke Times Newspaper
- Lobby of the RCPS Administration Building

IFBs and RFPs may include a requirement that vendors attend a pre-bid meeting in order to

observe the worksite and ensure all specifications are clear. The Director of Purchasing is responsible for ensuring all questions, responses, and clarifications from the meeting are posted publicly as an amendment to the IFB / RFP. This helps ensure vendors proposals and bids are based on complete and consistent information.

Once IFBs or RFPs are submitted, the Division depends on the department managers involved to have the knowledge and experience to properly evaluate their quality. As the functional experts, department managers exercise a great deal of influence over the procurement process, from developing specifications to evaluating bids and responses. By law, managers serve as fiduciaries acting in the best interest of the Division. RCPS managers and other key employees who have significant procurement responsibilities are expected to comply with the Virginia Public Procurement Act (VPPA) and conflicts of interest requirements. There are no formal acknowledgements on file showing that managers and key employees have read and understand the conflict of interest requirements, or acknowledging their compliance with those requirements. The VPPA provides that this type of acknowledgement can be required of employees on an annual basis. (Code of Virginia 2.2-4375)

#### Evaluation of IFB and RFP Specifications:

We selected 5 of 53 IFBs and RFPs published from July 1, 2016 through December 7, 2017, and evaluated the wording of specifications. We found no indications to suggest specifications were tailored to favor a given vendor or to otherwise limit competition. Four (4) of 5 procurements received 3 or more vendor responses.

Pre-bid conferences were held for 4 of the 5 IFBs and RFPs we reviewed. Contract files included agendas with the date and time of the meetings, as well as the topics to be covered. Vendor sign-in sheets were on file for each meeting documenting attendees' names and contact information. However, we noticed that minutes of the meetings were not on file in 2 of 4 cases.

In one case, no addendums were published indicating vendors had no questions about the specifications. In the 2<sup>nd</sup> case, a vendor inquired if answers would be posted. The formal responses were then published two days after the date included in the RFP as the anticipated date that written inquiries would be answered. One of the questions related to the type of mulch required. The answer specified the mulch had to be certified for playgrounds. This illustrated the value of pre-bid meetings, but also indicated that RFP specifications could have been more complete. This was especially true given the recurring nature of this RFP.

The one IFB that did not specify a pre-bid conference was for a firewall, network equipment and maintenance. Management considered these goods and services to be common and self-explanatory in nature. Only one vendor submitted a bid on this IFB; the work was awarded to the vendor for \$236,791 as bid.

Based on the common nature of the goods and services requested, the failure of this IFB to

attract competitive bids seemed notable. The specifications included the equipment manufacturer and product numbers for the existing network and firewall, but clearly accepted equivalent alternatives. Records show that two vendors inquired about the IFB and that neither vendor submitted a bid. We contacted the vendor based in Roanoke and asked if the IFB specifications had discouraged him from bidding. He felt the specifications were reasonable and appropriate, and was surprised more bids weren't submitted. His company did not bid due to having insufficient experience with the Division's existing firewall. He did not feel a substitute would have been satisfactory. His company has since developed experience with this firewall and would bid if the same IFB came out today.

We also asked a Network Engineer in the City's Technology department to review the IFB specifications. In his opinion, the specifications were appropriately and reasonably stated without bias toward any specific vendor. He commented that E-rate requirements can be challenging to meet and as a result, might discourage some vendors from bidding.

Finally, we confirmed that a cost estimate had been established for this IFB and provided some assurance that the sole bid was reasonable. The Division's Technology Department had provided an estimate of \$289,580 when the IFB was requested. The basis for this estimate was not provided to Purchasing before publishing the IFB or approving the award to the sole bidder. The Technology Department was unable to provide the underlying computations for the estimate when we inquired during the audit. The bid award was ~ 22% less than Technology's estimate.

### Vendor Protests

We asked Purchasing to provide us with all vendor protests on file as of the date of our fieldwork for evaluation as an indicator of poorly written or biased specifications. The Director of Purchasing was aware of only one (1) formal vendor protest since being appointed as Director in July 2016. The available records showed the nature of the protest, the Division's responses, and the eventual dismissal of the case by the Circuit Court on July 27, 2017. The essence of the complaint was that a vendor who could not meet the Division's required deadline for completing the work was awarded the bid.

The IFB and RFP documents include a "Procedure for Protest" section which instructs any vendor protesting a decision to award a contract to submit a written protest to the Deputy Superintendent no later than ten (10) days after the award or announcement of the decision to award, whichever occurs first. State law allows governmental agencies to establish an administrative process for vendor protests, but does not compel having one. State requirements for maintaining public records do not specifically address vendor complaints and protests. Professional literature that we reviewed stated there should be a process for handling vendor complaints and that it should involve an employee or function not directly implicated in the complaint.

**End of Objective 1**

**Objective 2: Small Purchases (< \$100,000)**

Audit Objective:

To determine if competitive pricing is reasonably assured for goods and services costing \$5,000 to \$100,000 procured directly by departments.

**Yes – with Exceptions**

Overview:

Virginia procurement regulations establish the thresholds for “small purchases” under which localities and school divisions are not required to follow public advertising and bidding requirements.

- Professional Services \$ 60,000
- Goods and Non-Professional Services \$100,000

Roanoke City Public Schools has a well-developed small purchases program that authorizes Principals and Department Managers to procure what they need with minimal paper work. They can purchase off existing state and term contracts that were competitively awarded. A listing of goods and services that are unique by nature, such as textbooks and testing services, have been formally granted exceptions to competitive pricing requirements by the administration. Exceptions can also be granted on a case-by-case basis when goods or services are needed due to an emergency or are available from only one source.

When established contracts do not exist and there are no applicable exceptions, schools and departments shop for themselves. Goods and services under \$5,000 do not require competitive quotes. Those costing between \$5,000 and \$100,000 require four (4) or more competing quotes whenever possible.

Adopted budgets reflected the following for all non-personnel expenses, including large expenditures such as transportation:

	Non-Personnel Expenditures	
	FY 2017-18	FY 2016-17
General Fund	\$ 12,937,767	\$ 12,250,524
Administration, Attendance & Health	\$ 6,801,813	\$ 7,525,346
Transportation	\$ 10,852,762	\$ 11,015,354
Operation & Maintenance	\$ 8,154,496	\$ 8,052,775
Debt Service	\$ 13,851,931	\$ 14,338,480
Athletics	\$ 954,123	\$ 948,648

Food Service	\$ 8,974,774	\$ 8,099,703
<b>Total RCPS</b>	<b>\$ 62,527,666</b>	<b>\$ 62,230,830</b>

After adjusting for non-discretionary expenses such as student transportation, utilities, and services provided by other government agencies, we were able to isolate small purchases that are primarily controlled by Principals and Department Managers.

Purchase Orders	FY17	FY18 (12/7/17)
# Issued	166	99
\$ Value:		
Low	\$ 5,038	\$ 5,315
High	\$ 97,000	\$ 100,000
Average	\$ 14,867	\$ 19,258
Total \$ Value	\$2.5 Million	\$1.9 Million

As the table illustrates, the number of purchases for which Principals and Department Managers were expected to obtain at least four vendor quotes was not substantial. Small purchases of this type account for less than 5% of the budgeted non-personnel expenditures on an annual basis.

We reviewed a sample of 40 purchases between \$5,000 and \$100,000 made from July 1, 2016 through December 20, 2017. The sample was split to look at 20 purchases using existing contracts or proprietary sources, and 20 that required departments to obtain quotes or cite an exception based on the type of good or service being purchased.

- Purchases from existing contracts or proprietary sources (*sample of 20*):
  - o 14 used an existing contract written by the State or another locality or school division.
  - o 1 was based on a winning bid from a publicly advertised IFB that did not result in a formal award of a contract.
  - o 4 were proprietary procurements with properly completed Sole Source/Proprietary Request Forms approved by the Chief Financial Officer or Deputy Superintendent.
  - o 1 was an emergency purchase with a properly completed Emergency Purchase Form.
- Purchases requiring competitive quotes or a quotation exception form (*sample of 20*):

- 13 were properly qualified and approved for quotation exceptions.
- 7 required competitive quotes.

While there was some variation in the documentation for the seven (7) purchases requiring quotes, departments overall made an earnest and successful effort to obtain competitive pricing. We noted one purchase costing \$35,250 that garnered only one quote. The work involved sanding, sealing and marking a gym floor, which appeared to us to be a service that should be more competitive. Based on our conversations with vendors, our research of the local market, and our review of vendor payment history, we concluded that department management had not made a sincere effort to comply with the Division's small purchase requirements. We shared our research with the Director of Purchasing and discussed monitoring controls that would help ensure competitive quotes are earnestly pursued by all departments.

Additionally, we noted that employees throughout the Division can have significant influence related to the goods or services procured through the small purchases process. Department employees develop the specifications, determine which vendors are contacted, receive the quotations, prepare quotations summary forms, and award the purchase. While efficient, this concentration of duties increases the risk that an employee could act in their own self-interest through cash payments, gifts, or other enticements. Requiring employees to acknowledge annually that they have complied with procurement laws and regulations of the state and school division is a compensating control that is not currently in place. The State allows localities and school divisions to require this type of acknowledgement on an annual basis. (Code of Virginia 2.2-4375)

### Change Orders

During our preliminary risk assessment, we considered ways in which competitive procurement might be circumvented. We identified change orders as a potential method for vendors to low ball their competitors, win an award, and then add costs.

Roanoke City Public Schools has strong controls to ensure vendor payments don't exceed approved amounts. The primary controls are within the system used for accounting, purchasing and accounts payable. User rights assigned in the system control who can request, approve, and process payments. Payment requests that exceed purchase order amounts cannot be processed without a manual override by employees in Accounts Payable, and only within programmed tolerances. The employees in the Purchasing Department are the only users with system rights to increase the amount of an existing purchase order within the system.

If a vendor requests additional funds to complete an order or project, they submit the request to the school or operating department who placed the order. If the employee responsible for the purchase agrees with the vendor's request, he or she must complete a Change Order Form. If

the increase in cost is more than \$100, the Principal or Department Manager involved must sign the form to document his or her approval.

Approved change orders go to the Purchasing Department for review and processing. Purchasing staff may increase the purchase order in the system by up to \$1,000 if the change seems reasonable and the form is properly completed and approved. Changes in excess of \$1,000 are given to the Deputy Superintendent for approval before modifying the purchase order in the system.

The data in the Aptafund accounting system reflected the following volume of change orders:

- 530 in FY17
- 236 in FY18 (12/18/17)

Change orders include changes to addresses, names, quantities, pricing and total cost. Minor changes for small errors such as failing to include shipping and handling costs in the original purchase order also prompt a change order.

We randomly selected 35 change orders in Aptafund for audit review, with the following results:

- 9 zero dollar (\$0) changes (name changes, account line changes, etc.)
- 2 utility billing changes
- 6 changes < \$100; no approval required
- 15 changes \$100 < \$5,000
- 3 changes ≥ \$ 5,000

All changes entered by Purchasing were supported by properly completed and authorized change order forms; all appeared to be appropriate based on the description and supporting documentation on file.

**End of Objective 2**

### Objective 3: Purchasing Cards Program

#### Audit Objective:

To determine if purchasing cards are effectively managed to help ensure purchases are appropriate, authorized, and correctly accounted for in the Division's financial reports.

#### **Yes with Exceptions**

#### Overview:

In an effort to facilitate more efficient procurement of small value goods and services used by departments, RCPS entered into a commercial card agreement with Fifth Third Bank. The contract was effective May 24, 2016, but the program wasn't fully in place until mid-year 2017.

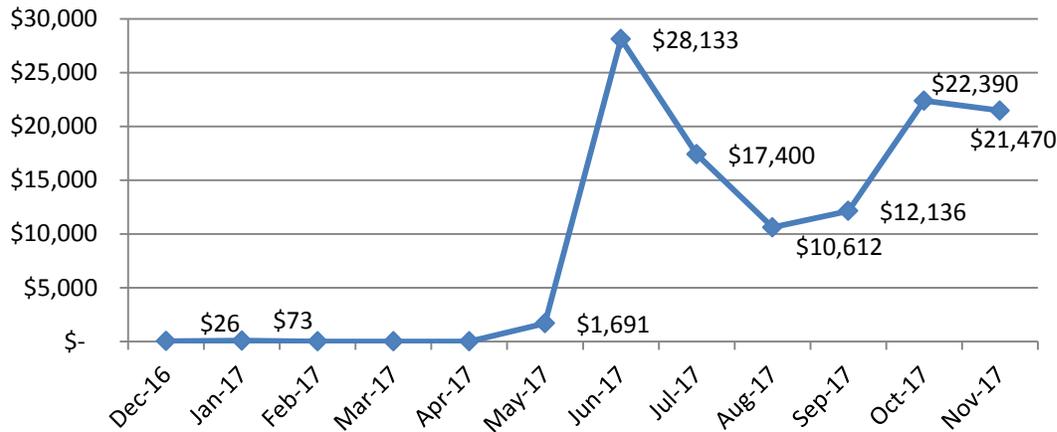
At the time of the audit, there were a total of twenty (20) active purchasing cards; eight issued in the name of an employee and 12 issued with a department name. The cards have a single transaction limit of \$5,000 and monthly limits ranging from \$5,000 to \$30,000.

We analyzed the Division's purchasing card transactions from December 1, 2016 to November 30, 2017, noting there were 619 purchases totaling almost \$114,000.

Transaction Summary	Total # Transaction	% Total	Total \$	% Total \$
<b>≤ \$100</b>	366	59%	\$ 9,875.49	9%
<b>\$101 - \$500</b>	217	35%	\$ 51,278.35	45%
<b>\$501 - \$1,000</b>	24	4%	\$ 17,202.76	15%
<b>&gt; \$1,000</b>	12	2%	\$ 35,573.53	31%
	<b>619</b>	<b>100%</b>	<b>\$ 113,930.13</b>	<b>100%</b>

- Smallest - \$0.01 (correction of another transaction)
- Largest - \$10,295 for paint (prior to setting up transaction limits)
- Average - \$184

### Monthly P-Card Spending



The table below lists the vendors paid most with Division purchasing cards:

MCH.MERCHANT NAME	Total
ROCKLEDGE PAINT DÉCOR	\$ 13,205.72
ANCHOR SALES AND SERVI	\$ 7,494.55
BAGSINBULK.COM	\$ 5,921.64
SAFEHOUSE SIGNS INC	\$ 2,959.54
ROANOKE GLASS	\$ 2,765.97
TRANE SUPPLY-116121	\$ 2,410.58
WALMART.COM	\$ 2,400.74
SOUTHERN REFRIGERATION	\$ 2,206.51
HILTON GARDEN INN	\$ 1,991.82
VIRGINIA COLLEGE ACCES	\$ 1,935.00

The School Plants Department was responsible for all of the purchases at six (6) of the 10 vendors listed. Plants accounted for \$63,587 (56%) of division-wide expenditures using purchasing cards.

Program Controls:

Purchasing card transactions typically post to the Fifth Third Bank system within 1-2 days. The transaction data posted by the Bank includes:

- Vendor Name
- Date and Time of Transaction
- Amount
- Card Number
- Cardholder's Name

The cardholder or department designee reviews each posted transaction and enters:

- Expenditure Account Code
- Description of Purchase

This creates an expense report in the Fifth Third Bank system, to which the cardholder/department designee must attach a digitized copy of the itemized receipt.

The Fifth Third system emails the cardholder's supervisor alerting him or her that an expense report is awaiting approval. Once the supervisor is satisfied and approves the expense report, the system emails the Purchasing staff. A Procurement Specialist reviews the goods and services purchased, reviews the expense account used, and verifies an itemized receipt is attached. When completed, the Procurement Specialist approves the expense report and the system routes it to Accounts Payable for payment. Once all the month's expense reports have been fully approved, usually by the 15<sup>th</sup> of the following month, the Director of Purchasing downloads a Journal Entry Report from the bank system. This report contains the credit card transaction data that is uploaded into the Division's AptaFund accounting system by the Accounting Department.

The basic framework for an effective purchasing card program is in place. Purchasing continues to familiarize itself with the system, learning the reports and other tools available to help manage the Division's program. A comprehensive set of procedures and guidelines for the program have not yet been developed and documented.

#### Compliance Testing

We reviewed a sample of 20 purchasing card transactions to determine if purchases complied with approval and documentation requirements.

- 20 were approved by the Supervisor
- 20 were approved by the Procurement Specialist
- 16 had itemized receipts attached
  - o 3 had receipts showing only the total expense
  - o 1 had an employee affidavit in place of a receipt
- 12 included descriptions in the system to explain the purpose of the purchases
  - o 8 had no description entered (40%)

Itemized receipts are necessary to know the specific items purchased. Descriptions are necessary to link purchases to the specific job, building, project, sports team, etc. Both itemized receipts and full descriptions are necessary for supervisors to confirm an expense was reasonable, appropriate, and for the benefit of the Division.

Expense Account Coding

We reviewed a sample of 15 purchases costing \$500 or more to verify the expense account entered was correct based on the description, receipt and purchaser. If the item was a durable asset, we wanted to confirm it was entered into the fixed asset system.

- 15 had the correct expense account coded
- 8 did not include adequate descriptions entered (itemized receipts were attached)
- 0 were durable equipment

Search for Purchases Not Charged to Commonly Used Accounts / Funds

We identified the following funds as those that purchasing card transactions would normally post to, due to the purpose of purchasing cards and the nature of RCPS activity:

- 301 General Unrestricted
- 302 General Restricted (Grant Funds)
- 315 Principals Discretionary
- 321 Food Services Unrestricted
- 341 Athletics Unrestricted
- 400 Student Activity Fund

Therefore, we searched the purchasing card activity (through November 2017) to identify transactions posting to the Athletics Restricted Fund (342) or to the Capital Fund (311). We noted only four (4) transactions posted to Fund 342 for William Fleming High School athletics:

- 10/5/16 – Presto Sports Camps: \$302: Cheer camp for WFHS cheerleaders
- 10/6/17 – Final Score: \$329.14: Cheer shorts for the WFHS cheerleaders
- 10/6/17 – Final Score: \$0.01 – related to above (total was \$329.15)
- 11/24/17 – Eastbay, Inc. \$1,826.05: Basketball shoes for the girls basketball team

Our review revealed that all four (4) transactions appear to have been appropriate based on the nature of the expense.

Expense Report Entry and Approval

We reviewed all purchasing card transactions posting from June 1, 2017 through December 31, 2017, to determine if transactions were entered into the system, submitted and approved timely.

<b>Purchases 6/1/17 thru 12/31/17</b>	<b>5 Days or Less</b>	<b>% of Total</b>	<b>&gt; 5 Days</b>	<b>% of Total</b>	<b>Without Dept. Approval</b>	<b>% of Total</b>	<b>Total</b>
<b>Expense Report Submitted Timely</b>	287	37.13%	486	62.87%	NA	NA	773
<b>Expense Report Approved Timely</b>	446	57.70%	327	42.30%	NA	NA	773
<b>Expense Report Closed Timely</b>	678	87.71%	66	8.54%	29	3.75%	773

As the chart above shows, cardholders frequently waited more than five (5) business days after the bank posted their purchase to enter their expense reports. Supervisors were also slow to review and approve expense reports. Once approved by a department supervisor, the Purchasing Department completed and closed out 88% of expense reports within five (5) business days or less.

The 29 transactions completed without system-documented departmental approval were Click-n-Ship charges included on one (1) expense report totaling \$253. This isolated incident was caused by the disassociation of the card from the submitter's name in the Fifth Third system, due to the cancellation and re-issuance of the departmental card on 12/22/17. The timing of the card cancellation caused the expense report to route directly to the Purchasing Department, without first routing to the appropriate departmental approver.

#### Unapproved Expense Reports

We reviewed all unapproved expense reports in the Fifth Third system as of December 18, 2017. Of the eight (8) expense reports noted, four (4) were included in the December payment to Fifth Third.

*All eight unapproved expense reports had been approved as of the end of fieldwork.*

#### Payment Authorization

We reviewed all transactions on three (3) monthly Fifth Third Bank statements to verify that all transactions were supported by a receipt or employee affidavit and that payment to Fifth Third Bank was authorized. We found original receipts or signed affidavits on file in the Accounts Payable Department for every purchasing card transaction reviewed. Payments to Fifth Third for all three months reviewed (May / September / November) were authorized and timely.

#### Canceled Cards

We reviewed all cards reported as lost, stolen or compromised since the inception of the program in December 2016 to determine if cards were canceled timely. No cards had been lost or stolen; one (1) card had been compromised and incurred unauthorized purchases on 10/17/17 and 10/18/17. Purchasing notified Fifth Third Bank on 10/20/17 and canceled the card the same day. We verified that the Division received a credit on the November 2017 statement for all unauthorized purchases.

**End of Objective 3**

**SUMMARY OF MANAGEMENT ACTION PLANS**

<b>Management Action Plan – Employee Disclosure and Acknowledgement</b>	
<p>The Purchasing Department will develop written procedures and form(s) that address the following:</p> <ol style="list-style-type: none"> <li>1. Employees who are authorized to control and direct significant purchasing expenditures are made aware of the conflict of interest provisions in the State and Local Government Conflict of Interests Act and the Virginia Public Procurement Act. An annual written certification of acknowledgement of the conflict of interest provisions will be signed by employees and filed with the Purchasing Department.</li> <li>2. Employees who prepare Bid specifications or RFP specifications for purchases that exceed \$5,000 are to disclose when they use a vendor representative and/or vendor marketing materials to develop those specifications. The disclosure form will be filed with the associated purchase order and/or contract.</li> </ol>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

<b>Management Action Plan – Purchasing Card Procedures</b>	
<p>The Purchasing Department will develop written procedures and guidelines for the use of the Fifth Third purchasing card and communicate those procedures and guidelines to cardholders and supervisors who approve cardholder transactions.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

<b>Management Action Plan – Purchasing Card Agreement and Acknowledgement</b>	
<p>The Purchasing Department will develop a Purchasing Cardholder Agreement Form. The form will be signed by the Purchasing Cardholder and will acknowledge that: 1) the Cardholder has received a Fifth Third credit card, 2) the Cardholder has received a copy of the purchasing card procedures for use of the Fifth Third credit card, and 3) the Cardholder will follow the purchasing card procedures for use of the Fifth Third credit card.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

<b>Management Action Plan – Vendor Protests</b>	
<p>The Purchasing Department will work with the Roanoke City Attorneys' Office to develop written procedures to address vendor protests. The Purchasing Department will also develop written procedures for the retention of documentation related to vendor protests.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

<b>Management Action Plan – Purchasing Card Transaction Entry and Approval</b>	
<p>The Purchasing Department will develop written procedures and guidelines for the use of the Fifth Third purchasing card and communicate those procedures and guidelines to cardholders and supervisors who approve cardholder transactions. All transactions on a Cardholder's current Fifth Third credit card statement will be reviewed and approved by the Cardholder, the Cardholder's supervisor, and the Purchasing Department before Accounts Payable pays the credit card statement.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

<b>Management Action Plan – Itemized Receipts for Purchasing Card Transactions</b>	
<p>The Purchasing Department will develop written procedures and guidelines for the use of the Fifth Third purchasing card and communicate those procedures and guidelines to cardholders and supervisors who approve cardholder transactions. Itemized receipts will be required for all transactions. Where no itemized receipt has been submitted, a Missing Receipt Affidavit form will be completed which details what was purchased and why an itemized receipt was not submitted.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

<b>Management Action Plan – Transaction Descriptions for Purchasing Card Transactions</b>	
<p>The Purchasing Department will develop written procedures and guidelines for the use of the Fifth Third purchasing card and communicate those procedures and guidelines to cardholders and supervisors who approve cardholder transactions. Detailed expense descriptions in the Fifth Third system will be required for all transactions. Descriptions will include the purpose of the purchase and, if necessary, details of the item(s) purchased if the receipt is unclear or not itemized.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

<b>Management Action Plan – Project Costs</b>	
<p>The Purchasing Department will develop written procedures and guidelines for developing estimated cost or estimated budget for each IFB or RFP. Market analysis, vendor quotes, or cost analysis by an architect are examples of the type of cost estimation that will be kept in Purchasing’s IFB and RFP documentation files.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

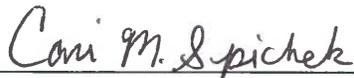
<b>Management Action Plan – Non-Competitive Procurement</b>	
<p>When a user department or school asks for a Request For Quote from vendors, the Purchasing Department will periodically contact those vendors to verify quote information submitted or to determine why a quote was not submitted. The Purchasing Department will also review documentation to determine whether a Request For Quote was received by vendors.</p>	
<b>Assigned To</b>	<b>Target Date</b>
Eric Thornton, Director of Purchasing	11/01/18

**MANAGEMENT COMMENTS**

NONE

**ACKNOWLEDGEMENTS**

We would like to thank the Purchasing Department, specifically Eric Thornton, Director of Purchasing, for his assistance and cooperation throughout this audit. We would also like to thank Teresa Alley, Senior Procurement Specialist, and Lynn Williamson, Procurement Specialist, for their time and input.



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Senior Auditor



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Drew Harmon, CPA, CIA  
Municipal Auditor