



**TO:** Phil Stover, Deputy Superintendent, Business Support Services  
**FROM:** Stephen Carr, Director, Office of Internal Audit *SC*  
**DATE:** May 16, 2014  
**RE:** Audit of Strategic Sourcing and Contracts

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Our office conducted an audit titled, "Audit of Strategic Sourcing and Contracts" for the period from January 2010 to June 2013. The audit report contains information regarding the audit findings and recommendations. Enclosed are copies of the audit report and the response from the Strategic Sourcing and Contracts Department.

The processes of contracting and purchasing at the Strategic Sourcing and Contracts Department were lacking in certain internal controls. The Strategic Sourcing and Contracts Officer agreed with the audit findings, but stated that insufficient staffing will preclude implementing recommendations and correcting deficiencies for certain findings.

If you have any questions concerning the information in this report, please call me at 725-5696.

c: Members, Board of Education  
C. Marten  
S. Monreal  
email: BOE, Audit Committee

## **Audit of Strategic Sourcing and Contracts**

**February 4, 2014**

### **Introduction**

The San Diego Unified School District's (district) Office of Internal Audit performed a scheduled audit of the Strategic Sourcing and Contracts Department. The review included interviews with district employees, review of computer system records, review of contracts and review of documents from January 2010 to June of 2013. Contact was made with the district's Strategic Sourcing and Contracts Officer, Contract Services Manager, and Accounts Payable Department.

### **Background**

The Strategic Sourcing and Contracts Department (SSC) provides district schools, departments and staff the goods and services needed for the operations of the district. Strategic Sourcing and Contracts is charged with cost containment, cost savings and cost avoidance resulting in the lowest prices and best values for the district and taxpayers. Strategic Sourcing and Contracts encourages competition for district business and manages contracting for construction, professional services, materials, commodities, supplies, equipment and services required to support schools and departments. Contracts are approved by the San Diego Unified School District Board of Education (Board of Education). The department authorizes the acquisition of the required goods and services by release of purchase orders through the PeopleSoft computer system.

### **Audit Scope and Objectives**

The scope of this review was from January 2010 to June of 2013. The specific objectives of this review were:

- To determine that the purchasing process is performed in an efficient and effective manner.
- To determine that the processing of contract bids is in compliance with applicable laws and district Administrative Procedures.
- To determine that proper internal controls are in place for the purchasing process.

## Audit Findings Summary

1. Insurance certification required by contracts was not on file, received after the contract was fully executed, and/or did not provide for the correct amount of insurance in violation of contract requirements necessary to protect the district's interest.
2. The PeopleSoft Purchasing software comments section was the only documentation provided to support an increase or decrease in the purchase order amounts that were previously approved by requisition, compromising the approver's authority.
3. No documentation was maintained for an increase or decrease in the purchase order amount above the approved requisition amount or below the approved requisition amount, to show the approver's endorsement, for five contracts reviewed.
4. The contract requisition amount, notification letter amount, and contract amount approved by the Board of Education did not match for one contract.
5. A complete and centralized system of record for district contracts is not maintained by SSC.
6. District Administrative Procedures for District Contracts and Purchasing are out of date and have not been revised since prior to the purchase of the PeopleSoft software system.
7. A requisition was processed for supplies from a vendor of the previous contract and not the current contracted vendor.
8. Review of district Contracts revealed the following errors and/or omissions:
  - The wrong contract number was recorded on the "First Amendment" to a contract for towing services and approved by the Board of Education.
  - Required Contract Intake Forms were not maintained or were missing the approval signature.
9. A review of bid packages for district contracts revealed bid package records that did not contain the submission from a vendor that was rejected.
10. The PeopleSoft requisition process does not allow for the processing of sales tax which causes differences between requisition amounts, and purchase order amounts and results in budget checking errors.

### Conclusion

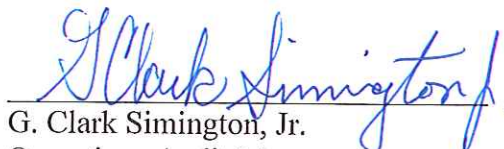
Based on the audit scope and analysis performed by Internal Audit, certain internal controls are lacking in the processing of contract bids and control of purchase order amounts. The proper segregation of the duties of creating a requisition, approval of the requisition, and creation of the purchase order was not maintained. Buyers, on requests from employees not being the requisitions' approvers, changed purchase order amounts that resulted in the requisition now lacking the authorized approver's acknowledgement or approval. Buyers changed purchase order amounts without having the requisition approver's acknowledgement documented.

Strategic Sourcing and Contracts has moved from a system of record that stored paper copies of contracts in filing cabinets to the electronic storage of contracts on a computer server, but not all contracts or all pages of the contract are stored there. Contract research requires contacting the buyer for contract copies or accessing the district's Board Docs application. The need for this information necessitates a complete system of record be maintained by SSC.

District Administrative Procedures for District Contracts and Purchasing require update since they are out of date and have not been revised since prior to the district purchase of the PeopleSoft software system.



W. Stephen Carr  
Director, Office of Internal Audit



G. Clark Simington, Jr.  
Operations Audit Manager

## Explanation of Findings

1. **Insurance certification required by contracts was not on file, received after the contract was fully executed, and/or did not provide for the correct amount of insurance in violation of contract requirements necessary to protect the district's interest.**

Internal Audit selected a sample of purchase orders and associated contracts for review. Contract bid packages were reviewed to determine that required insurance certification for each contract was maintained.

Insurance certification required by contracts for seven vendors was not maintained by Strategic Sourcing and Contracts in the bid packages or contract files. The contract numbers and Vendor names are as follows:

<b>Contract Number</b>	<b>Provider</b>
SV-13-0025-20	AccentCare Home Health
GD-11-0456-20	Parkhouse Tire
PS-13-0050-20	Harmonium
SV-11-0255-25	Road One Towing
GD-13-0634-64	Vulcan Materials
SV-11-0246-64	EDCO
GD-90-671-25	Kearney Mesa Ford

SSC maintains a separate file of insurance certifications that arrive in the mail. This file is not arranged by vendor name or contract number. The insurance certifications are stamped on the date received and filed by this date. Insurance certifications can only be located from this file by reviewing the entire file. Review of this file did reveal the following:

- An valid insurance certificated for Road One Towing was received 5 months prior to the date the contract was executed. This insurance certificate provided for \$1,000,000 auto liability when the current contract required \$2,000,000 for auto liability.
- An insurance certificate for EDCO was received and effective on October 15, 2010 when the contract was executed on September 15, 2010. .
- An insurance certificate for AccentCare Home Health was received September 28, 2012 when the contract was executed on July 1, 2012. This insurance certificate provided for \$1,000,000 general liability when the contract required \$2,000,000 general liability. .

Vendor insurance certification requirements are an important element of district contracts and serve to minimize possible financial liability to the district.

## Recommendation

Internal Audit recommends that SSC management ensures that all contract insurance requirements are met for all contracts and that insurance certificates are maintained with bid packages and contract files.

- 2. The PeopleSoft Purchasing software comments section was the only documentation provided to support an increase or decrease in the purchase order amounts that were previously approved by requisition, compromising the approver's authority.**

Internal Audit selected a sample of purchase orders and associated contracts for review. Purchase order amounts were matched to requisition amounts and approvals were reviewed.

Contract purchase order amounts and term purchase order amounts did not match requisitions amounts. Differences between the purchase order amounts and requisition amounts were noted in ten of seventeen contracts reviewed and five of seventeen term purchase orders reviewed. Purchase order amounts were increased or decreased by buyers based on requests from employees. These employees were not the authorized approvers of the original requisition. No documentation was maintained that the original approver of the requisition approved the increase or decrease of the purchase order amount. The buyers are able to increase or decrease the purchase order amount that was authorized by the original requisition. Documentation provided for the increase or decrease in purchase order amounts were notes maintained in the PeopleSoft purchasing software system comments function. These notes are entered into the comments section of the purchase order by the buyer.

Requests for purchase order amount modification were not made by the original approver of the requisition. Requests to modify the purchase order amount were made without obtaining updated approvals to the original requisition amounts from the authorized approvers. Purchase Order amounts for the following Purchase Order numbers were increased or decreased creating a difference between the Purchase Order amount and the approved Requisition amount:

Purchase Order Number	Purchase Order Amount	Approved Requisition Amount	Difference
199963	53,071.88	24,975.00	28,096.88
186271	12,500.00	10,000.00	2,500.00
185004	3,000.00	1,500.00	1,500.00
159450	44,000.00	25,000.00	19,000.00
185577	66,000.00	25,000.00	41,000.00
186576	450,000.00	200,000.00	250,000.00
192060	97,111.42	96,911.42	200.00
198405	47,000.00	35,000.00	12,000.00
198403	8,000.00	25,000.00	-17,000.00
184715	13,000.00	25,000.00	-12,000.00
184807	4,572.06	1,000.00	3,572.06
184859	11,000.00	15,000.00	-4,000.00

184885	100.00	200.00	-100.00
185575	58,710.00	40,000.00	18,710.00
185982	20,000.00	12,000.00	8,000.00
185855	36,500.00	30,000.00	6,500.00
186648	120,000.00	100,000.00	20,000.00
184920	1,200,000.00	1,300,000.00	-100,000.00
186643	4,000.00	1,000.00	3,000.00
184728	10,000.00	9,000.00	1,000.00
198096	1,000.00	100,000.00	-99,000.00
184886	18,000.00	25,000.00	-7,000.00
184823	110,000.00	25,000.00	85,000.00
184766	15,000.00	1,000.00	14,000.00
175059	50,000.00	25,000.00	25,000.00

Proper segregation of the duties of creating a requisition, approval of the requisition, and creation of the purchase order is an important internal control. Buyers should not increase or decrease purchase order amounts, other than with an established margin, without authorized approval for the change.

### **Recommendation**

Internal Audit recommends that SSC implement a procedural process to establish criteria for changing purchase order amounts. Requisition amounts should be adjusted and new approval obtained for purchase order amounts that are increased or decreased.

### **3. No documentation was maintained for an increase or decrease in the purchase order amount above the approved requisition amount or below the approved requisition amount, to show the approver's endorsement, for five contracts reviewed.**

Internal Audit selected a sample of purchase orders and associated contracts for review. Purchase order amounts were matched to requisition amounts and approvals were reviewed. The following purchase order amounts were increased above the requisition amounts or below the approved requisition amount without authorization documentation:

- Purchase order 185859 created a term purchase order for \$34,600. The authorized requisition was created for \$5,000, a difference of \$29,600.
- Purchase order 184659 created a blanket purchase order for \$25,579. The authorized requisition was created for \$21,000, a difference of \$4,579.
- Purchase order 184859 created a term purchase order for \$11,000. The authorized requisition was created for \$15,000 and documentation was received to reduce the purchase order to \$12,000, a difference of \$1,000.

- Purchase order 186648 created a term purchase order for \$120,000. The authorized requisition was created for \$100,000 and a request was received to increase the purchase order to \$140,000, a difference of \$20,000.
- Purchase order 184886 created a term purchase order for \$18,000. The authorized requisition was created for \$25,000, a difference of \$7,000.

Proper segregation of the duties of creating a requisition, approval of the requisition, and creation of the purchase order is an important internal control. Buyers should not increase or decrease purchase order amounts without authorized approval of the change.

### **Recommendation**

Internal Audit recommends that a process be implemented to establish criteria for changing purchase order amounts. Requisition amounts should be adjusted and new approval obtained for purchase order amounts that are increased.

#### **4. The contract requisition amount, notification letter amount, and contract amount approved by the Board of Education did not match for one contract.**

Internal Audit selected a sample of purchase orders and associated contracts for review.

The contract Agenda Item Fiscal Impact amount approved by the Board of Education to provide physical therapy services to special needs students was \$24,975 and the requisition was prepared at \$24,975. The Contract Notification letter sent to the vendor was prepared with a contract amount of \$24,975, however, the contract compensation amount was prepared and signed by the vendor and district at \$50,000 and the subsequent purchase order issued for \$53,071.88.

Contract amounts approved by the Board of Education should match the purchase order amount and Agenda Item Fiscal Impact amount.

### **Recommendation**

Internal Audit recommends that SSC management enforce a process to ensure that contract amounts approved by the Board of Education match purchase order amounts, Agenda Item Fiscal Impact amounts, and the Contract Notification letter amounts sent to vendors.

#### **5. A complete and centralized system of record for district contracts is not maintained by SSC.**

Strategic Sourcing and Contracts has moved from storing paper copies of contracts in filing cabinets to storing contracts electronically. Older contract copies continue to be physically stored in files and new contracts are scanned for electronic storage. None of the currently reviewed contracts were stored in filing cabinets. Of the seventeen contracts reviewed, only four had a complete copy of the contract stored electronically. Nine contracts had the Notification Letter, Agreement page and Signature page electronically stored and not the complete contract. Two contracts had the Agreement page and Signature page only electronically stored and not the complete contract. Two contracts were not electronically



stored.

Copies of executed contract should be stored centrally by SSC. Contract copies are needed to research specific contract provisions. While contract copies may be maintained by individual buyers or on the district Board Docs application, these are not a complete system of record.

### **Recommendation**

Internal Audit recommends that SSC completely scan and store electronically, the complete contract package to be the district's system of record.

**6. District Administrative Procedures for District Contracts and Purchasing are out of date and have not been revised since prior to the purchase of the PeopleSoft software system.**

A review of district Administrative Procedures revealed that procedures for contracting and purchasing are no longer relevant. These procedures detail processes that are no longer in place and systems that no longer exist. The following Administrative procedures have not been updated since the district purchased the PeopleSoft software system:

- District Administrative Procedure number 1570, titled "District Contracts". Last updated May 18, 1987.
- District Administrative Procedure number 2400, titled "Purchasing, Supply, and Distribution System". Last updated July 21, 2000.
- District Administrative Procedure number 2410, titled "Stock Supplies and Materials". Last updated January 12, 2001.
- District Administrative Procedure number 2415, titled "Nonstock Supplies, Materials, and Services". Last updated June 23, 2000.

District Administrative Procedures are the instructions governing the operations of the district and should reflect current procedural activity.

### **Recommendation**

Internal Audit recommends that SSC management prepares and updates all appropriate district Administrative Procedures to reflect the current contracting and purchasing system.

**7. A requisition was processed for supplies from a vendor of the previous contract and not the current contracted vendor.**

Internal Audit selected a sample of purchase orders and associated contracts for review. A new contract was bid and awarded, however Strategic Sourcing and Contracts continued to process requisitions and created purchase orders for the vendor of the previous contract.

Continuing to process purchase orders from a previous contract after a new contract has been bid and executed could result in a financial liability to the district. The district and newly contracted vendor would expect purchases to be processed against the current contract.

**Recommendation**

Internal Audit recommends that SSC management ensures that purchases are not made from expired contracts when a new contract has been bid, awarded, and executed.

**8. Review of district Contracts revealed the following errors and/or omissions:**

- **The wrong contract number was recorded on the “First Amendment” to a contract for towing services and approved by the Board of Education.**

Internal Audit selected a sample of purchase orders and associated contracts for review. Audit noted that on a contract for towing services, the contract number was manually changed on the signature page of the “First Amendment”. The School Board approved the amendment to the contract with the incorrect contract number. Purchase orders were subsequently issued against the incorrect contract number.

Manual changes made to contracts after approval by the Board of Education may result in a liability to the district. The incorrect contract value may be decreased in error or the incorrect budget account accessed for payment.

- **Required Contract Intake Forms were not maintained or were missing the approval signature.**

The Contract Intake Form required by Strategic Sourcing and Contracts procedure was not maintained for the contract to provide specialized physical health care staff. Also, the required Contract Intake form for the contract to provide before and after school programs was completed, but does not contain an approval signature.

The Contract Intake Form is required by Strategic Sourcing and Contracts procedure and should be completed for requested contracts.

**Recommendation**

Internal Audit recommends that SSC management ensures that properly completed Contract Intake Forms are maintained for all requested contracts.

**9. A review of bid packages for district contracts revealed bid package records that did not contain the submission from a vendor that was rejected.**

Internal Audit selected a sample of purchase orders and associated contracts for review. Contract bid packages were reviewed to determine that required documentation was maintained.

The bid package maintained for the contract to provide parts for district vehicles was missing the submission from one vendor. Six of the seven bidders for this contract received a contract award. The missing bid package records were from the only vendor not awarded a contract.

Bid packages should contain documentation from all bidders should litigation arise as a result of a rejected bid.

**Recommendation**

Internal Audit recommends that SSC management ensures that documentation is maintained for all contract bidders to limit district financial liability.

**10. The PeopleSoft requisition process does not allow for the processing of sales tax which causes differences between requisition amounts, and purchase order amounts and results in budget checking errors.**

Internal Audit selected a sample of purchase orders and associated contracts for review. Purchase order amounts were matched to requisition amounts and approvals were reviewed. Numerous small differences between purchase order amounts and requisition amounts were identified to be amounts for sales tax. Discussions with buyers revealed the requisition process did not allow for the inclusion of tax amounts. When the purchase order is processed, any applicable tax amount causes a difference between the total purchase order amount and the requisition amount. In addition, the lack of sales tax amounts in the requisition process also causes budget checking errors because the purchase order amount does not equal the amount budgeted.

SSC staff time must be used to correct these errors.

**Recommendation**

Internal Audit recommends that SSC management explore a solution to this issue to minimize the amount of staff time needed to correct these sales tax issues. Communication of the sales tax issue with district departments that process requisitions could improve the budget checking process.



MEMORANDUM

**TO:** Stephen Carr, Director, Office of Internal Audit  
**FROM:** Philip R. Stover, Deputy Superintendent Business Support Services  
**DATE:** May 12, 2014  
**SUBJECT:** AUDIT OF THE STRATEGIC SOURCING AND CONTRACTS DEPARTMENT

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This Memorandum provides a response to the Audit of the Strategic Sourcing and Contracts Department Memorandum dated February 4, 2014.

The Strategic Sourcing and Contracts Department is in complete agreement regarding the needs for strong internal controls. Ours' is a complex process requiring multiple levels of accuracy, follow-up, document control and storage and a commitment to an effective and efficient operation. The findings as presented by the Office of Internal Audit demonstrate that our department is suffering from its own success. Since its creation in March 2009 our department has continually centralized and standardized the disparate and varied procurement processes used by the district prior to that time. We have been willing partners in a continued annual increase in our workload and the work that is under our scope. Because of this growth the district has saved millions of dollars in procurement and our processes reflect a higher level of accuracy and consistency in contract management than the district has ever known.

The department appreciates the finding of the Office of Internal Audit because they point out that it is now time for the district to take the functioning of the department to the next level. This is only possible if the district implements all or a significant portion of the Procurement Practices Review Committee. This committee met through 2012 and 2013 and finalized recommendations to allow the department to almost double in size, inclusive of management of post-grant supervision and compliance. The department asks that the Audit and Finance Committee review the recommendations as discussed to further a recommendation to the superintendent and Board of Trustees to support the work of the PPRC. The years of financial cuts and crisis have kept us from adding sufficient staff who would allow us to say with confidence that we can eliminate each and every of the audit findings of our work. We are now managing four to five times more contracts that when we were established with no concomitant increase in staff. We support the creation of a complete system of record for all matters related to contracts. We would fully support the addition of staff to enable us to do this.

Our department is especially supportive of the need to update district Administrative Procedures for District Contracts and Purchasing. This would be very helpful to everyone and would allow us an even greater ability for consistency and constancy in our work.

In the meantime, our department will commit itself to a careful and thorough examination of the ten recommendations to see where we can make incremental improvement in each with existing staff. We have no overall disagreement with any of the findings. Our commitment to excellence is unequivocal. We ask for your support in helping us to be able to take our department to the next level.

#### Response to Audit Findings

1. Agreed. There is insufficient staffing to perform a continuous review and updating of insurance certifications during the term of all contracts. A proposed staffing plan, approved by the Procurement Practices Review Committee which was formed in response to direction from the School Board to the Superintendent on April 10, 2012, included staffing to perform this task.
2. Agreed. Requisition amounts cannot be adjusted after the Requisition is processed into a Purchase Order. A procedure exists whereby documentation received requesting an increase or decrease in the amount of a Purchase Order is memorialized into the comments field on the Purchase Order.
3. Agreed. While, in theory, there is merit to having a Principal or Department Head's personal endorsement of an increase or decrease to the amount of a Purchase Order, the practicality of enforcing this procedure would negatively impact the efficiency and timeliness in delivering goods or services to the district and processing of payments to vendors.
4. Agreed.
5. Agreed. There is insufficient staffing to completely scan and store electronically the complete contract package. A proposed staffing plan, approved by the Procurement Practices Review Committee which was formed in response to direction from the School Board to the Superintendent on April 10, 2012, included staffing to perform this task.
6. Agreed. A proposed staffing plan, approved by the Procurement Practices Review Committee which was formed in response to direction from the School Board to the Superintendent on April 10, 2012, would provide management with available time to address this task.
7. Agreed. A proposed staffing plan, approved by the Procurement Practices Review Committee which was formed in response to direction from the School Board to the Superintendent on April 10, 2012, who would provide the attention to contracts management to eliminate this finding.

8. Agreed.

9. Agreed.

10. Agreed. The SS&C Department continues to communicate with district departments that process requisitions about the importance to allow for the cost of sales tax for their proposed purchase when determining the funding source(s) for its proposed purchase.

PS:mf