TUCSON UNIFIED
SCHOOL DISTRICT

EXECUTIVE SUMMARY

The Office of Internal Audit (OIA) has completed the compliance audit of the Purchasing Department (PD) in the Tucson Unified School District (District). The PD operations are managed by the department's Director who reports to the Executive Director of Finance.

The purpose of the audit was to evaluate the purchasing department's adherence with district policies, standard procedures, set guidelines, and regulations.

The audit scope included activities from October 1, 2019, through October 1, 2021.

The objectives were to evaluate the department's processes, procedures, internal controls, and general efficiency of operation.

The audit objectives were accomplished by:
- x Interviewing the Director of the department.
- x Filling out an Internal Control Questionnaire (ICQ).
- x Conducting research and obtaining insight from the department's staff.
- x Testing of selected processes and procedures was conducted to evaluate the flow of data.
- x Analysis of selected purchases from existence to completion was performed.

Excluded from this audit were: construction contracts, purchasing cards, and travel; each may be audited separately in the near future.

Observed conditions are listed below in order of their perceived risk:

1- Completed purchase orders are being altered

2- Missing purchase request number: Some purchase request numbers are not able to be located in the system.

3- Missing information and/or documentation: Of the 80 purchase requests evaluated, 35 were missing supporting documentation. Of the 155 purchase orders evaluated, 78 were missing supporting documentation.

4- Update purchasing procedures policy: Some transactions did not contain a copy of the purchase order.

5- Segregations of duties: Staff is performing activities beyond their intended job descriptions without verification of segregation.

6- "Vendor" reimbursement for mileage expense.

7- Conflicting information: The Purchasing Department's "Problem Worksheet Procurements" in SharePoint does not align with the "After-the-Fact Procurement" section of the District's Purchasing Code DJE.

8- Open purchase orders: 18 transactions from school year 2019-2020 were found to have an "open" status in the system; eight of the transactions were classified as "Blanket Purchase Orders".

9- Incomplete or missing vendor information: Two vendors out of 30 did not have attached W-9s.

10- Strategic planning for employee vacancies: Overpaying to have someone fill a vacant position.

11- Limitations of iVisions: Some limitations were found within the iVisions system that hinder the effectiveness of the purchasing process.

12- Non-secure data.

BACKGROUND

The Purchasing Department (PD) and its functions are centralized under the Finance division. PD supports the District's 89 K-12 schools, programs, and various administrative departments. The primary function of the department is to manage the purchase of goods and services to ensure that they are obtained in a timely manner at the agreed price, and in accordance to established rules, regulations, policies, and procedures.

The PD is also instrumental in the development, negotiations, and administration of contracts for purchases of goods needed throughout the District. They do this by entering into contracts with various vendors, state cooperatives, consulting service agreements. Some of these processes include related change orders using formal bids, competitive negotiations requests, quotes, and proposals. The overview of the purchasing process includes, but is not limited, to processing Electronic Personnel Action Requests (ePARs), clarifying questions with end users, performing bid processes, screening, andrn ee5 Tw (6921 (v)Tj011.205 (i).861 0 Td[(en)2.r.621 (f)]TJ0.0e1 Tw 8 Tw u6.251j06.884 (n)

procedure. This will eliminate Purchasing Staff from entering PO revisions without documentation.

2. MISSING PURCHAS

name, firm price(s), freight charge, percent of sales tax, and any other pertinent information.

3. Electronically attach all information and documentation to the requisition." [6]

USFR -Source Documents- VI-B-2 – "Source documents are used to initiate accounting transactions and should be retained to support each entry recorded in the accounting records. Examples of cash receipts source documents include prenumbered cash receipt forms, validated treasurer's receipts, cash register tapes, and validated bank deposit receipts.

Examples of cash disbursements source documents include requisitions, purchase orders, receiving reports, and vendor invoices."[7]

Effect: Violation of policy. No supporting data.

Cause: Information was either not uploaded or deleted after the fact.

Recommendation:

a. Adhere to policy requirements.

b. Ensure supporting documents are uploaded and saved.

RESPONSE:

Purchasing will update our documentation for the Electronic Ordering Process and work with the District's Legal Department to update our Purchasing policy, to note that Electronic orders (via Punchout) and Market Basket orders (using Contract Pricing Pages) do follo

5. SEGREGATION OF DUTIES

Condition: Staff is performing activities beyond their intended job descriptions without verification of segregation.

Criteria: USFR -Introduction- VI-A: "An effective accounting system can also help safeguard district assets from fraud, theft, or misuse. Accounting system policies and procedures formally documented and adopted by the governing board should provide separation of responsibilities, adequate internal checks and balances, and sufficient records to support financial transactions.

Responsibilities should be assigned to specific departments, if applicable, and adequately separated within departments so that one individual does not have complete authority over an entire financial transaction or process...." [9]

Effect: Some job duties are being performed without segregation, or without verification of segregation.

Staff members have system access rights and abic

RESPONSE:

Purchasing Admi nistration will work with District's Legal Department to update policy if needed and will evaluate and update procedure in SharePoint. Purchasing Staff will be retrained regarding any changes.

8. OPEN PURCHASE ORDERS

Condition: transactions from school year 2019-2020 were found to have an "open" status in the system; eight of the transactions were classified as "Blanket Purchase Orders". **Criteria:** USFR – Accounting Procedures, Expenditures-VI-G-1-Procedures 7. "Blanket purchase orders may be used for purchases of a recurring nature from the same vendor within a specified time frame, such as maintenance supplies and food service items. Blanket purchase orders should state a definite time period that the purchase order is in effect and a specific dollar limit. Invoice amounts paid against a blanket purchase order should be deducted from the total limit to determine the remaining unexpended balance. The district should periodically review open blanket purchase orders and close purchase orders outstanding for more than the specified time period. All blanket purchase orders should be closed with the vendor at year-end."[14] **Effect:** Storing outdated and incorrect information in the system. A receiving report was ran and indicated that 14 out of the 18 "open" transactions had been received. **Cause:** Data was not inputted in a timely fashion.

Recommendation:

a. As a due diligence measure, run a quarterly report to identify POs that are still open and follow up accordingly.
b. Work with the accounts payable department to understand why these transactions have an open status.

RESPONSE:

Purchasing will create a Fisca l Year End Checklist to ensure all POs are closed at year end.

RESPONSE:

Purchasing Staff will update documentation to identify the categories of vendors requiring a current W -9 form and will retrain staff to follow procedure when adding new vendors.

10. STRATEGIC PLANNING FOR EMPLOYEE VACANCIES

Condition: Overpaying to have someone fill a vacant position.

Criteria: Government Auditing Stasom a0-12.5Tj form eoy0-12.4TjeeeonabeosnaecionTin

original date of the transactions to be over-written. Data could be unintentionally changed which will cause the information in the system to be inaccurate.

Cause: Limitations within the system and/or within the current programming.

Recommendation:
a. Work with the iVisions administrator(s) to resolve these issues.

RESPONSE:

The iVisions system is used by most Arizona school districts. The district has worked with Tyler Technologies to improve functionality where possible.

12. **NON-SECURE DATA**

Condition: Notes in iVisions have the ability to be deleted when entered in "PO Notes", "Internal Notes", or "Append Internal Notes".

Criteria: USFR -Accounting Procedures- Introduction- IX-1- "The information technology (IT) internal control guidelines presented in this section are provided to help school district officials and IT personnel develop and implement effective internal control for IT-based systems. These controls are intended to help provide reasonable assurance that the resulting data is accurate and reliable." [19]

Effect: Deleting notes in the system causes degradation of data and creates the inability to trace activities and records. (Image below is from iVisions Note Tab).
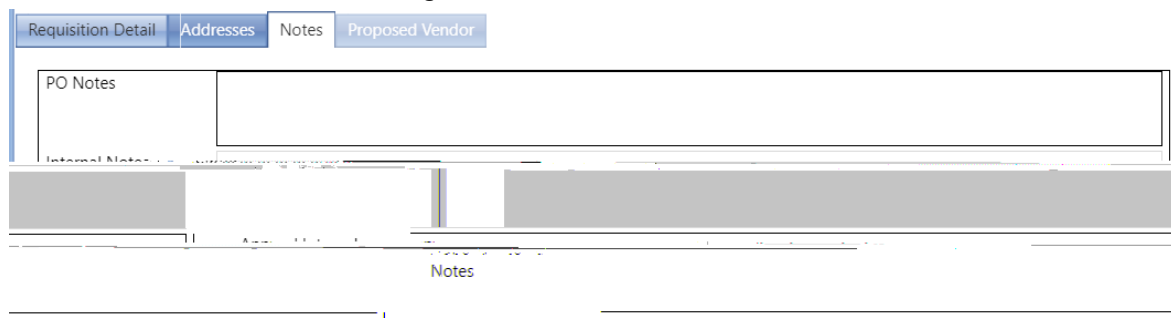
Cause: Poorly set permissions/privileges within the system.

Recommendation:
a. Staff members should not have the ability to delete notes from within the system.

RESPONSE:

Purchasing Staff will update documentation and be retrained to identify which notes are to be added to Internal Notes (permanent notes) or PO Notes (notes only appearing on POs).

CONCLUSION

The audit was conducted to assess the urchasing epartment's overall compliance with applicable governance. The objectives were designed to evaluate the department's general efficiency of their purchasing process, procedures, and internal controls. The objectives were achieved by analyzing transactions, assessing internal controls, reviewing applicable policies and procedures to determine compliance. Testing performed during the audit was intended to detect areas in need of improvement, evaluate potential risks, and oversights.

Internal audits can only provide reasonable assurance, never absolute assurance, on audits performed.

The OIA findings are based on district policies, department's handbook for standard operating procedures, applicable state procurement guidelines, and governinTh a e lblnIA 90T9:j•301 •797 (r)-0.761 (es)]TJ0.0

FIGURE 1

REFERENCES

1. **Financial Acquisition and Regulation (FAR) - 13.302-3 - Obtaining Contractor acceptance and modifying purchase orders(b), (1/30/22):** Obtaining contractor acceptance and modifying purchase orders states "Each purchase order modification shall identify the order it modifies and shall contain an appropriate modification number." https://www.acquisition.gov/far/part-13#FAR_13_302

2. **FAR - 13.302-5 - Clauses- a), (1/30/22)** "Each purchase order (and each purchase order modification (see 13.302-3)) shall incorporate all cluses prescribe for the particular acquisitions." https://www.acquisition.gov/far/part-13#FAR_13_302

3. **Uniform System of Financial Records (USFR), Accounting Procedures Expenditures slide- Pres- VI-G-1 (6), (Page 168)** "Sequentially numbered purchase orders should be prepared and approved by an authorized district official for all district expenditures before the goods or services are ordered, except for exempted items such as salaries and related costs, utilities, and in-state travel, or when a written contract is prepared." www.azauditor.gov

4. **USFR - Procedures - VI-G-2 (1), (Page 164) -** "Prepares a sequentially numbered purchase requisition (VI-G-21), which should be signed and dated by the requisitioner and the department individual authorized to approve the requisition." www.azauditor.gov

5. **USFR - Procedures (9), VI-G-3, (Page 165). -** "Prepares a sequentially numbered purchase order (VI-G-22 and 23)." www.azauditor.gov

6. **District Policy Code: DJE-R - Purchasing Procedures Under $10,000, A. Fiscal Year Cumulative District Purchases Costing Under $10,000:**

   2. Prepare and document on the requisitions: complete description of the material(s) or services(s), quantity, date of quotation, quoter's name, firm price(s), freight charge, percent of sales tax, and any other pertinent information.
   3. Electronically attach all information and documentation to the requisition."

   https://govboard.tusd1.org/Portals/TUSD1/GovBoard/docs/sectD/DJE.pdf

7. **USFR - Soce Doents - VI-B-2 (Page 101)** – "Source docments are used to initiate acunting transactions and should be retained to support each entry recorded in the accounting reords. Examples of cash receipts sourc docments incde prenumbered ch receipt forms, validated treasurer's receipts, ch register tapes, and validated bank deposit receipts. Examples of cash disbursements source documents include requisitions, purchase orders, receiving reports, and vendor invoices."

8. **District Policy Code: DJE - After-the-Fact Proements -:** "A properly executed purchase order shall be issued for the acuistion of all goods, personal servics and cnstrucion."

take vacation time and have another employee perform their responsibilities. If adequate separation of responsibilities is not possible because of a district's limited staff size, district management should implement review procedures at appropriate points in the process to compensate for employees performing incompatible functions." www.azauditor.gov

10. **Internal Revenue Services (IRS)** - Publication 5137 -Rev. 2-20

09/24/2019 5 procurements violate the Arizona Revised Statutes, Article 10 of the Arizona Board of Education Administrative Code and the Uniform System of Financial Records. School sites or departments that violate statute and code will be required to follow the procedures in District Regulation DJE-R. A Violation may be considered misappropriation of District funds, which will result in corrective action, up to and including termination of employment and/or mandatory reimbursement of the unauthorized purchase amount."
https://govboard.tusd1.org/Portals/TUSD1/GovBoard/docs/sectD/DJE.pdf

14. **USFR – Accounting Procedures** Expenditures – Procedures VI-G-1 (7) ,(Page 163)-. "Blanket purchase orders may be used for purchases of a recurring nature from the same vendor within a specified time frame, such as maintenance supplies and food service items. Blanket purchase orders should state a definite time period that the purchase order is in effect and a specific dollar limit. Invoice amounts paid against a blanket purchase order should be deducted from the total limit to determine the remaining unexpended balance. The district should periodically review open blanket purchase orders and close purchase orders outstanding for more than the specified time period. All blanket purchase orders should be closed with the vendor at year-end."
https://www.azauditor.gov/sites/default/files/USFR8119.pdf

15. **USFR – Accounting Procedures** Expenditures VI-G-10 (Page 172) – "Districts should document and retain in a district procurement file or with the related requisition form or purchase order the vendor name, person(s) contacted, telephone number, and price quotes or results of the request." www.azauditor.gov

16. **Government Auditing Standards -GOA**-21-368G: 7.23 -**Application Guidance: Findings** Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessary involve a violation of law. Rather, waste relates primarily to mismanageme

GLOSSARY

American Institute of Certified Public Accountants (IACPA): "Is the national professional organization of Certified Public Accountants in the United States, with more than 418,000 members in 143

include the routine operation, routing repair or routine maintenance of existing structures, buildings or real property.' https://www.azleg.gov/viewdocument/?docName=https://www.azleg.gov/ars/15/00213

variety of skills and expertise to the organization." https://global.theiia.org/about/about-internal-auditing/pages/about-internal-auditing.aspx

Internal Control – "A plan of organization under which employees' duties are arranged, and records and procedures are designed, to make it possible to exercise effective control over processes. Internal control procedures which call for prope efsial