DETROIT PUBLIC SCHOOLS

ACCOUNTABILITY  TRANSPARENCY

Odell W. Bailey
Auditor General

AUDIT REPORT

To: William Aldridge, Chief Financial and Administrative Officer
Karen Ridgeway, Superintendent of Academics
Alvin Woods, Assistant Superintendent
Angela Broaden, Principal, Noble Elementary-Middle School

From: Odell W. Bailey, Auditor General

Date: July 31, 2014

CC: Jack Martin, Emergency Manager
Delores Brown, Deputy CFO/CAO
Dorothy Menefee, Director, Accounts Payable

Subject: Review of Procurement Activity at Noble Elementary-Middle School; SP-13-125

BACKGROUND

The Office of Auditor General received notification from the Office of Employee Relations, Civil Rights and Discipline Administration that the principal at Noble Elementary – Middle School (Noble) had contacted the office concerned that the procurement activity at the school may not be in compliance with District requirements or guidelines related to e-receipting in PeopleSoft based on an incident that came to her attention. The Office of Auditor General (OAG) contacted the principal at Noble, whom advised us that she had become aware of an occurrence where it appeared the clerical employee at the school responsible for all e-procurement activity, including entering e-requisitions and e-receipting in PeopleSoft Financial appeared to have received on a food service purchase prior to the service actually being received. The OAG agreed to review the school’s e-procurement activity to assess whether the activity was in compliance with District
requirements and guidelines related to e-receipting as well as other e-procurement requirements that come to our attention.

The District's requirements and guidelines related to e-receipting are the primary responsibility of the Finance Division, Office of Accounting, Department of Accounts Payable (Payables) and the Office of Procurement and Logistics. We obtained a copy of the presentation to School-based personnel that outlined numerous requirements related to the procurement to payment process, including e-receipting, which occurred in August 2013. The relevant requirements and guidelines related to that process include:

- Invoices cannot be paid until district locations properly acknowledge receipt of goods or services according to the current procedures established for e-receipting. This process must be completed within three (3) business days after delivery of good or service is completed.

- Packing Slips / Delivery Receipts must be retained for at least 18 months after receipt of goods/services.

- It is against District Policy to approve payment (i.e. record as received) for goods and services that have not been provided.

- Do not receive on the full amount of a Purchase Order unless all services have been provided.

During the period of our review (September 1, 2013 – April 17, 2014) the school's e-procurement activity included:

- 75 Approved Purchase Orders (4 were subsequently cancelled)
- 41 of the POs were for goods or merchandise
- 30 of the POs were for services
- Total value of the POs were $ 64,853.

OBJECTIVE SCOPE & METHODOLOGY

The objective for this review was to determine whether e-receipting at Noble School for purchases was conducted in accordance with District requirements and guidelines. The scope included all purchases made by the school from September 1, 2013 – April 17, 2014 with discretionary funds.

The methodology employed included, but was not limited to: (1) interviewing the school principal and clerical staff person responsible for procurement at the school; (2) obtaining an electronic listing of all e-procurements including the requisition, purchase, and receipt numbers, relevant dates, and names of personnel that performed the transactions; (3) analysis of the electronic listing, and (4) performance of a test to determine whether appropriate procurement documents are being properly maintained and comparing the date of receipt as recorded in PeopleSoft (PS) to the externally generated packing slip or delivery receipt date. We completed our field work for this review on July 31, 2014.
EXECUTIVE SUMMARY

Each year, principals authorize the purchase of thousands of dollars of goods and services to ensure the effective operations of their schools. When goods and services are procured at the school level, school personnel are responsible to ensure that District requirements for procurements are met and required documentation is retained. At the request of the Principal of Noble Elementary-Middle School, we reviewed the level of compliance with procurement requirements for a 6 month period and found some instances of non-compliance. The specific concern raised by the principal was that the person responsible for requisitioning and receiving on ordered goods and services may have violated District requirements by receiving on goods prior to them being delivered.

Our test of procurement transactions made by the school for the period in question found that on two occasions goods were received on in PeopleSoft at least 30 days prior to actually being received. We also found one instance where the full quantity of services procured were received on nearly 4 months before the final service was scheduled to be delivered. The procured service involved parent workshops that were conducted by Wayne County Legal Services. Although the services involved 12 workshop sessions to be presented from December 2013 through May 2014, the purchase order had a quantity of 1 and the total cost of over $6,000 was received on in December, 2013.

In both cases, the District would be at risk in the event the goods or services did not meet the required specifications or expectations for quality. The District would have no recourse or ability to withhold payment until the matter was satisfactorily addressed. This could lead to litigation which can be costly to the District. District requirements set forth in a document that was presented to school principals as recent as August 2013, specifically prohibits both actions as it relates to receiving on goods and services or partial goods and services before they are fully delivered. Although we could not verify that payment was actually made before all services were delivered, receiving on goods and services starts the payment process and could lead to payment being made prior to the service or good being performed or delivered.

Given the District’s 90-day payment policy, the intent of those who violate District requirements for receiving on goods or services is likely to speed that process up to reduce the length of time a vendor would have to wait for payment. This allows the school to maintain a good relationship with their vendors, but it poses a risk to the District. The District has recognized that for certain purchases such as registration fees for conferences and travel costs funds can be made available prior to the date of the event. All other procurements processed through the Procurement and Logistics department must follow District requirements for receiving on goods and services.

To ensure that all staff responsible for procuring goods and services are fully aware of the District requirements for procurement actions, we believe the District needs to formalize its requirements in written policy with applicable procedures that detail how the policy is carried out. Once this occurs the information can be disseminated through on-line courses and training sessions. This will help ensure that those responsible for procurement activities are fully aware of District policies and procedures that govern those activities.
AUDIT FINDINGS

Finding #1

Receiving on purchases prior to actual receipt of goods and services

Criteria

The District prohibits approving purchases for payment (including e-receipting) prior to goods and services being actually received. Best practices require all procurements of goods and/or services be received prior to payment for such goods and services.

Condition(s)

For 7 of the 14 purchases in our test sample where no independent source document such as a packing slip or delivery receipt was attached, 2 were recorded as received in PeopleSoft prior to the goods being delivered. These 2 purchases involved food service for meetings with dates of March 4, 2014 and April 1, 2014. However, both purchases were recorded as being received in PeopleSoft on February 5, 2014, some 26 and 53 days, respectively prior to the actual event date.

Effect

Approving purchases for payment prior to the goods or service being received increases the risk that payment could occur prior to receiving the goods or service. If payment were to be made to a vendor prior to goods and services be received, the District would have no leverage or ability to withhold payment if the terms and conditions of the agreement were not met by the vendor. It could also lead to litigation if a dispute arose with the vendor related to quantity, price, type, etc.

Recommendation(s)

1. Office of Accounting should formalize its requirements set forth in the Accounts Payable presentation to the schools in policy with procedures that clearly prohibit approving purchases as being received in PeopleSoft prior to the actual receipt. The policy should have tough sanctions and penalties for non-compliance.

2. Office of Accounting should consider issuing alerts directly to principals, department executives and clerical personnel responsible for procurement activity advising them of key procurement requirements and prohibited activities.

Risk: High
Finding #2

Receiving on full amount of a Purchase Order prior to receiving the full order of Goods or Services Purchased

Criteria

The District prohibits receiving on the full amount of a Purchase Order (PO) until all goods and services have been received/provided.

Condition(s)

Of the 7 purchases in our test sample where independent source documents (i.e., packing slip or delivery receipt) here not included in the purchase package maintained by the school, 1 involved the purchase of services for 12 separate workshops to provide literacy training that were 2 hour sessions scheduled through May 2014.

The PO for this item was approved on December 2, 2013. The amount was $6,050 and it was created as a quantity of one (1). The entire PO was received on in full in PeopleSoft on December 12, 2013. However, all services under the PO were not received prior to the date the order was received on.

Effect

Authorizing payment in advance of all services being provided violates district procurement requirements. It also subjects the District to possible litigation if goods and services are not provided/received in a manner outlined in the purchase order. When federal dollars are involved, it could also cause expenditures to be disallowed by the granting source.

Recommendation(s)

3. Office of Accounting should establish a formal written policy and procedure that details how requisitions and POs that have multiple items should be received on in accordance with the procurement requirements presented by AP.

4. Office of Procurement and Logistics should consider providing training on how requisitions and purchase orders that involve multiple service deliverables should be prepared including the impact of using a quantity of one (1) when procuring multiple goods or services on one purchase order.

Risk: High
Finding #3

Externally generated documents, such as packing slips and delivery receipts that validate the date goods or services are recorded as received in PeopleSoft are not always maintained as required by the District.

Criteria

Best practices recommend that documents which validate expenditures be maintained for a reasonable timeframe after payment. The District requires that packing slips and delivery receipts be retained for at least 18 months after receipt of goods or services.

Best practices also recommend that all documents related to a single purchase be maintained together (i.e., requisition, PO, receiving documents, and proof of payment). This would allow for quick and ready access of source documents if needed.

Condition(s)

We selected 14 of the 71 purchases made by Noble with discretionary funds during the scope of our review. We found 7 of 14 or 50 percent of the purchases did not have independent source documents such as packing slips or delivery receipts attached to support the date of delivery. Also, we noted that procurement documents were not being maintained or filed in an orderly manner. The school files these documents in groups where purchase orders are filed together and requisitions are filed together.

Additionally, one purchase in our test sample had the incorrect receipt documentation attached. The purchase involved food service with a PO# 847895 with a service date of January 16, 2014. However, the attached external receipting document was dated April 30, 2014, and referenced PO # 856087.

The clerical staff person responsible for procurement activity at the school indicated she had not received any revised or updated training in several years, nor had the school received any bulletins or alerts from Payables or elsewhere in the District regarding requirements related to procurement document maintenance.

Effect

Not maintaining sufficient source documentation that supports the actual date goods or services were received increases the risk that expenditures could be disallowed by the external auditor or grantor, where applicable, if supporting documents such as packing slips or delivery receipts are not maintained.
Recommendations

5. Office of Accounting should formalize in policy those requirements included in the presentation presented by the Accounts Payable department that outlines which procurement documents should be maintained, the length of time they must be maintained, and form or manner in which they should be maintained.

6. The Office of Accounting working with Procurement and Logistics should consider producing an on-line training course that addresses e-procurements and the documentation requirements.

7. Employees responsible for procurement activity should be required to attend training annually on DPS policies and procedures related to procurement activity.

8. The principal should periodically monitor procurement documents throughout the year to ensure they are being maintained in accordance with District requirements, policies, and guidance.

Risk: Medium

Finding #4

Not Receiving on Purchases within Established Time-frames

Criteria

The district requires purchases be e-receipted in PeopleSoft ASAP, but within 3 business days of it being actually received.

Condition(s)

For 7 purchases in our test sample where independent source documents such as packing slips and or delivery receipts were included in the purchase package, we found 4 that were recorded in PeopleSoft as being received beyond 3 business days of their actual receipt. The table below illustrates relevant dates and the number of business days that elapsed from date of actual receipt to the date they were recorded as received in PeopleSoft.
Table 1.1: Untimely Receipting on Goods and Services

<table>
<thead>
<tr>
<th>Purchase Order Number</th>
<th>Date of Receipt - In PeopleSoft</th>
<th>Date Received (packing slip or delivery receipt)</th>
<th>Number of Business Days Lapsed</th>
</tr>
</thead>
<tbody>
<tr>
<td>846539</td>
<td>12/12/2013</td>
<td>12/06/2013</td>
<td>4</td>
</tr>
<tr>
<td>847495</td>
<td>02/05/2014</td>
<td>01/2/2014</td>
<td>19*</td>
</tr>
<tr>
<td>852347</td>
<td>04/16/2014</td>
<td>03/24/2014</td>
<td>17</td>
</tr>
<tr>
<td>854605</td>
<td>04/17/2014</td>
<td>04/08/2014</td>
<td>7</td>
</tr>
</tbody>
</table>

*Excludes days school was closed due to inclement weather or power outages.

**Effect**

Failing to receive on e-purchases in PeopleSoft within the three business days after receipt of goods or services is a violation of District requirements. It also increases the length of time vendors have to wait to receive payment. Given the District’s current 90 day pay policy any delays in receiving on goods adds to the 90 days and could hamper the District’s ability to work with the vendor in the future on a credit basis.

**Recommendation**

9. Office of Accounting should formalize its requirements for timeframes to receive on goods or services included in the Accounts Payable presentation that defines the allowable timeframe as 3 days to record the receipt of goods or services in PeopleSoft once they have been received.

**Risk:** Medium
Conclusion

Each school in the District is assigned an annual budget for personnel and discretionary costs needed to sustain the operations. The ability for each school to procure goods and services using the District’s e-procurement process allows schools to obtain goods and services without going through a centralized administration for this purpose. This saves valuable time and allows goods and services to be procured when needed.

However, given the District’s 90 day pay practice, which has been communicated to all major vendors, there are times when vendors who provide such goods and services to the schools are not able to wait 90 days after the date the good or service was provided to get paid. In some cases, it appears efforts are employed by DPS personnel to shorten this payment window by receiving on goods or services in PeopleSoft before they have been delivered. This is a dangerous practice as it limits the District’s ability to ensure the good or service met the School’s needs and expectations prior to initiating the payment process.

Because each of the District’s 94 schools have the ability to procure goods and services through the e-procurement process, the importance of having well communicated policies and procedures that govern the process and detail procedures to follow the process are critically important. The District has provided input to school principals on requirements for e-procurements including how activity should be documented, but the requirements have not been formalized in policy. Once this occurs, training on the policies and applicable procedures is critical to ensure that those responsible for e-procurement activities at the schools are fully aware of District requirements.

Our review was performed in accordance with U.S. Government Accountability Office, Government Auditing Standards, and Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing, except as it relates to an external peer review.

This report is intended solely for management of the District and should not be used for any other purpose. The restriction is not intended to limit distribution of the report which is a matter of public record.

Odell W. Bailey, CIA
Auditor General
TO: William E. Aldridge, Chief Financial and Administrative Officer
FROM: Arnold Joseph, Acting Chief Procurement and Logistics Officer
DATE: August 5, 2014
SUBJECT: Procurement - Activity - Noble Elementary - Commentary to Audit findings

Bill, in review of the documents by Internal Audit there is an immediate need to reintroduce the communication of the current Purchasing Policy and Procedures. I believe that many of the areas cited in the audit have a purchasing policy written to address and if not we can update to execute accordingly if a process change has occurred. **For example: new enhancements or process improvement with PeopleSoft 9.2 upgrade.**

In reviewing the four findings:

1. **Receiving on purchases prior to actual receipt of goods and services**
2. **Receiving on full amount of a Purchase Order prior to receiving the full order of Goods or Services Purchased**
3. **Externally generated documents, i.e. Packing slips and delivery receipts that validate the date goods or services are recorded as received in PeopleSoft are not always maintained as required by the District.**
4. **Not Receiving on Purchases within established time frames.**

All of these areas are generally outlined in section VII (pg. 19) of the Policy Manual Dated March 1, 2012.

The key areas requiring additional training are in the following sections:

C. **Requisition Process - See attached outline Exhibit D**
D. **Method of Procurement**
E. **Purchase order, supplier right to payment - Outlines the PeopleSoft process and the requirement of receipt of goods to authorize AP to pay.**

An immediate need is to review the 9.2 upgrade specifically on the receipt of goods and ensure that the process is outlined and signed off by requestors as part of their training classes for e-procurement (requisitioners training) scheduled for late August.

Bill, I do believe the 90 day work around cited by DPS personnel to shorten the payment window is a real issue that requires attention to mitigate throughout the entire district. It is critical that DPS personnel conform to purchasing policy and not violate a process in PeopleSoft which is utilized for a check and balance to keep DPS district in compliance.

A few recommendations I foresee with your feedback are the following:
- Develop a Task Force with P&L, Audit, Finance / AP, Academics & IT to develop a training program that will reinforce best practices required to mitigate the findings outlined in the report. I agree we should implement online courses and training sessions. (Opportunity to use advance technology to train and utilize resources in a timely and effective manner)

- P&L is currently working with IT training staff on training enhancements for upcoming requisitioners training in late August. We have an opportunity to reinforce the need for compliance to purchasing policy as part training in 9.2.

- In Section IX (Purchasing Policy pg. 23) Training & Compliance- This area is outlined in the policy but needs to be reinforced. In addition, I need to ensure it is clearly understood and executed by the current P&L staff.

   I also believe each year as part of DPS employee’s yearly assessment EDP – Employees need to signoff based on attending training of Procurement Policy & Procedures and confirm via a form which outlines the following below:
   - Their attendance at the training
   - Their acknowledgement of the District Procedure Policy
   - Their agreement to abide by the Policy (with clear understanding of the penalties associated with non-compliance)

I look forward to your comments and hope this in align with your input expectations regarding the Audit Draft report.

Thank You.

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