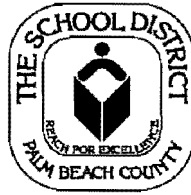


**Audit of
Compliance with Contract Prices**

September 12, 2003

REPORT 2003-14



MISSION STATEMENT

The School Board of Palm Beach County is committed to excellence in education and preparation of all our students with the knowledge, skills, and ethics required for responsible citizenship and productive employment.

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**Audit of
Compliance with Contract Prices**

Executive Summary

The primary objectives of the audit were to determine whether the unit prices paid for goods or services were consistent with the terms and conditions of the contract.

Based on a review of 40 sample invoices for 32 different vendors, the audit produced the following major conclusions:

1. Internal Control System in Enforcing Vendor Agreements Appeared Adequate.

Controls appeared adequate in ensuring unit prices paid for goods and services were consistent with contract prices. For only one invoice, we found that the District did not receive the agreed-upon discount, which resulted in an overpayment of \$47.76.

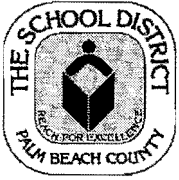
We found that prior to approving a Purchase Requisition and issuing a Purchase Orders, Purchasing staff routinely verified items and prices to ensure the unit prices were consistent with the terms and conditions of the vendor agreement. Also, for the 40 selected sample invoices, we found that department directors and school principals appropriately reviewed and approved invoices for payment.

2. Price Discount Information Does Not Always Appear on Invoices.

For five, or 12.5% of the 40 invoices we reviewed, we found that although appropriate purchase discounts were received, the invoices did not indicate whether a discount was provided. Bid discount information was not printed on the Purchase Orders. As a result, some vendors may consider it unnecessary to provide the discount information on the invoices. The Purchasing Department should include bid discount information on Purchase Orders, and require vendors to print that information on their invoices, as stipulated in the contract.

Audit of
Compliance with Contract Prices
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LUNG CHIU, CPA
DISTRICT AUDITOR

ARTHUR C. JOHNSON, Ph.D.
SUPERINTENDENT

MEMORANDUM

TO: Honorable Chair and Members of the School Board
Arthur C. Johnson, Ph.D., Superintendent of Schools
Chair and Members of Audit Committee

FROM: ^{KLE} Lung Chiu, CPA, District Auditor

DATE: September 12, 2003

SUBJECT: Audit of Compliance with Contract Prices

PURPOSE AND AUTHORITY

Pursuant to the *District's Audit Plan of 2002-2003*, we have audited the compliance with contract prices for fiscal year 2003. The primary objectives of the audit were to:

- Assess the adequacy of the District's internal control system in enforcing vendor agreements.
- Determine whether the unit prices paid for goods or services were consistent with the vendor agreement.
- Determine whether staff appropriately approved invoices for payment.
- Determine if Purchasing staff verified prices and items on the Purchasing Requisition to ensure items were consistent with the contract prior to issuing a Purchase Order.

SCOPE AND METHODOLOGY

This audit focused on the District's control system in enforcing vendor price agreements. We reviewed 40 sample invoices for 32 different vendor contracts. The invoices reviewed were paid between January 1, and May 31, 2003, totaled \$5,883,440, and represented approximately 3% of all applicable invoices, 10% of total expenditures, and 9% of the District's 361 vendor price agreements. Invoices were selected based on their dollar amount and the type of commodity or service purchased. The invoices reviewed were for purchases of gas, diesel fuel, food, food supplies, computer hardware, library books, textbooks, furniture, fixtures, equipment, office supplies, motor vehicles, as well as labor and materials for remodeling, renovations, and improvements to facilities.

Capital projects in excess of \$200,000 were not included in this review because there is a separate control system in place for reviewing and approving payments related to major construction projects.

The audit was performed in accordance with *Government Auditing Standards* by Robert Bliss, CIA, and included:

- Reviewing School Board Policies and District procedures;
- Interviewing staff of the Purchasing Department, and interviewing other departmental staff responsible for reviewing and approving invoices selected in the audit;
- Reviewing related Request for Proposals, bids, contracts, Purchase Orders, invoices, and payments for selected invoices.

Draft conclusions were sent to the Purchasing Department for review and comments. Management responses are included in Appendix B. We appreciate the courtesy and cooperation extended to us by staff during the review. The final draft report was presented to the Audit Committee at its September 12, 2003, meeting.

BACKGROUND

A price agreement is a formal written contract between the District and a designated vendor for the purchase or disposal of supplies, equipment, or services. The contract establishes the price structure, duration, and anticipated contractual expenditure.

The District utilizes several types of price agreements including:

1. **Blanket Agreements** - Establishes the commitment of a vendor to furnish the District's requirements for items or services on an as-required basis. There is a time limit for the agreements, a maximum amount of money that may be spent at one time or within a period of time, and a specified type of commodity or services that can be obtained.
2. **Term Contracts** - Establishes a source of supply for goods or services at a specified price during a specified period of time.
3. **Requirements Contracts** - Agreements in which the vendor agrees to supply all of the District's normal requirements for an item(s) at a specified price during a specified period.

Price agreements originate in one of the following two ways:

1. **Palm Beach County School District Contracts.** The Purchasing Department specifically procures these contracts either for District-wide purposes or for a specific school/department.

2. State Contracts and Other Governmental Agency Contracts. These contracts are entered into by the State of Florida or other governmental agencies within the State of Florida and the vendors. These agreements have a "piggyback" clause acknowledged by the contractor and the agreed-upon terms and conditions may be used by other political jurisdictions, such as the Palm Beach County School District.

As of August 13, 2003, the District was utilizing 302 contracts procured by the Purchasing Department, and 59 State or other governmental agency contracts.

Prices of goods purchased under vendor contracts are often derived by applying a fixed discount/mark-up (-/+) to a dealer's published catalog price or manufacturer's published price list. The price and discount information for most commodities is available to user-departments through published catalogs or price lists, and bulletins posted on the Purchasing Department's website. The user must enter the unit prices into TERMS when ordering. As a result, there is a risk that the unit prices indicated on the resulting Purchase Requisition, Purchase Order, and vendor invoice may not agree with the contracted prices. To address that concern, Purchasing Department staff manually verifies prices of individual line items on the Purchase Requisition to the prices listed on the vendor agreement prior to approving the requisition and issuing the Purchase Order.

The Purchasing Department delegates the following responsibilities to department directors and school principals:

1. Inspect and accept goods and services on behalf of the District.
2. Ensure that only authorized items and services are requisitioned and purchased.
3. Approve invoices electronically for payment via TERMS, attesting that the invoice has been reviewed, that the items were received as indicated on the Purchase Order and invoice, and that billing rates or unit prices have been verified.

On October 16, 2002, the District entered into an agreement with IBM Business Consulting Services to perform a "Business Systems Review" of its automated financial systems. On June 2, 2003, the "Purchasing and Payment Processes" phase of that review was complete, and it found that the District would benefit from implementing an Enterprise Resource Planning system with e-procurement function. If implemented, such a system would improve controls over purchases and improve vendor management through the utilization of electronic vendor catalogs. Electronic catalogs would increase operation efficiency by allowing staff to perform online searches of approved vendors, products, and contracts, and allow negotiated prices to be enforced automatically, rather than manually.

CONCLUSIONS

The audit produced the following major conclusions:

1. Internal Control System in Enforcing Vendor Agreements Appeared Adequate.

Controls appeared adequate in ensuring unit prices paid for goods and services are consistent with contract prices.

- Payments for 39, or 97.5%, of 40 invoices reviewed, were consistent with the contracted unit prices. For only one invoice, we found that the District did not receive the agreed-upon 5% discount, which resulted in an overpayment of \$47.76. This was the only exception we found. (See Appendix A for results of attributes tested).
- Review of the 40 sample invoice files indicated that, prior to approving a Purchase Requisition and issuing a Purchase Orders, Purchasing staff routinely verified items and prices to ensure the unit prices were consistent with the terms and conditions of the vendor agreement.
- For the 40 selected sample invoices, we found that department directors and school principals appropriately reviewed and approved the invoices for payment.

In conclusion, the District was paying appropriate prices and receiving appropriate discounts for most goods and services purchased through vendor price agreements.

2. Price Discount Information Does Not Always Appear on Invoices.

The standard term contract utilized by the District stipulates that the vendor's invoices must list the line item unit price, and the "extended price, minus the bid discount as listed on our purchase order."

For five, or 12.5% of the 40 invoices we reviewed, we found that although appropriate discounts were always received, the invoice did not indicate whether a discount was provided. The contract language instructs vendors to show the "bid discount as indicated on our purchase order", but the District's Purchase Orders do not detail the bid discount information. Purchase Orders only display the net discounted price, and do not show how that price was derived; i.e. list price minus the discount percentage. Since bid discount information is not provided on our Purchase Orders, some vendors may consider it unnecessary to provide the discount information on their invoices.

District staff will not be aware of the discount provision if invoices do not indicate the discount information. The Purchasing Department should include bid discount information on Purchase Orders, and require vendors to display that information on their invoices, as stipulated in the contract.

Management Response:

We concur. The Purchasing Department will review and revise current contract language relative to price discount information. (See Appendix B.)

- End of Report -

Appendix A

Detailed Results of Invoice Attribute Testing

Sample #	Purchase of:	Review Attribute					
		Invoiced Unit Price Agreed to Contract	Invoiced Unit Price Agreed to PO	Unit Price Verified by Staff	Staff Approved Invoice for Payment	Discount Indicated on Invoice	Discount Taken by District
1	Gas/Diesel Fuel	√	√	√	√	√	√
2	SFS-Food/Supplies	√	√	√	√	√	√
3	Computer Hardware	√	√	√	√	√	√
4	Library Books	√	√	√	√	√	√
5	Fixtures/Equipment	√	√	√	√	√	√
6	Remodel/Renovate	√	√	√	√	√	√
7	Computer Hardware	√	√	√	√	√	√
8	Furniture	√	√	√	√	√	√
9	Library Books	√	√	√	√	√	√
10	Equipment	√	√	√	√	No	√
11	Computer Hardware	√	√	√	√	√	√
12	SFS-Food/Supplies	√	√	√	√	√	√
13	Remodel/Renovate	√	√	√	√	√	√
14	Supplies	No	√	No	√	No	No
15	Textbooks	√	√	√	√	No	√
16	Computer Hardware	√	√	√	√	√	√
17	Remodel/Renovate	√	√	√	√	√	√
18	SFS-Food/Supplies	√	√	√	√	√	√
19	Equipment	√	√	√	√	√	√
20	Library Books	√	√	√	√	√	√
21	Furniture	√	√	√	√	No	√
22	Textbooks	√	√	√	√	√	√
23	Remodel/Renovate	√	√	√	√	√	√
24	Improvements	√	√	√	√	√	√
25	Computer Hardware	√	√	√	√	√	√
26	SFS-Food/Supplies	√	√	√	√	√	√
27	Computer Hardware	√	√	√	√	√	√
28	Motor Vehicles	√	√	√	√	√	√
29	Equipment	√	√	√	√	No	√
30	Equipment	√	√	√	√	√	√
31	Remodel/Renovate	√	√	√	√	√	√
32	SFS-Food/Supplies	√	√	√	√	√	√
33	Remodel/Renovate	√	√	√	√	√	√
34	Remodel/Renovate	√	√	√	√	√	√
35	Improvements	√	√	√	√	√	√
36	Furniture	√	√	√	√	√	√
37	Improvements	√	√	√	√	√	√
38	Computer Hardware	√	√	√	√	√	√
39	Furniture	√	√	√	√	√	√
40	Improvements	√	√	√	√	√	√
Totals:		39 Yes 1 No	40 Yes	39 Yes 1 No	40 Yes	35 Yes 5 No	39 Yes 1 No
√ = Yes							

Appendix B

Management's Response

Division of Financial Management

Purchasing

August 28, 2003

To: Lung Chiu, CPA, District Auditor
From: Sharon Swan, C.P.M., ^{HS}Director Purchasing
Subject: Response – Audit of Compliance with Contract Prices

Management Concurs.

The Purchasing Department will review and revise current contract language relative to price discount information.

RECEIVED
AUG 28 2003

DISTRICT AUDITOR

cc: Joseph Moore, Chief Operating Officer

PX 48214 – Suite A-323