



Interlocal Cooperative Contract Purchases (Buckets) Audit

Audit Plan Code: 22-13

ASSURANCE • INSIGHT • OBJECTIVITY

Final Report

June 2, 2022

Procurement staff verify that (i) purchases are made within the effective dates of the cooperative/interlocal agreement contracts, and (ii) the goods/services purchased are listed in said contracts.

However, we identified (i) instances of inaccurate tracking of bucket purchases, (ii) discounts offered through the contracts were not verified, and (iii) inconsistent supporting documentation maintained to justify buckets, which lessens accountability.



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Abbreviations

ASAP	Analytics, Strategy, Assessment & PEIMS
BOT	Board of Trustees
CAP	Corrective Action Plan
EPISD	El Paso Independent School District
FFE	Furniture, Fixture, and Equipment
IA	Internal Audit
IIA	Institute of Internal Auditors
IT	Information Technology
PEIMS	Public Education Information Management System
PO	Purchase Order
SOP	Standard Operating Procedures



Executive Summary

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We have completed the Interlocal Cooperative Contract Purchases (Buckets) Audit. The objectives of the audit were to determine if:

1. District purchases comply with the following terms of the cooperative/interlocal agreement contract.
 - a. Purchases were made within the effective dates of the contract.
 - b. The goods/services purchased are listed in the contract.
 - c. Purchase amounts match the established contract pricing list (if applicable).
2. The Procurement Department is accurately tracking cooperative/interlocal agreement purchases approved by the Board of Trustees (BOT).

The audit scope included purchases (buckets) approved by the BOT from July 1, 2020, to September 30, 2021, to acquire goods/services through cooperative/interlocal agreements.

We want to acknowledge and thank the Procurement Department's management and staff for their assistance during the completion of this audit.

What We Found

Procurement staff verify that (i) District purchases are made within the effective dates of the cooperative/interlocal agreement contracts, and (ii) the goods/services purchased are listed in said contracts.

However, we found:

1. The manual method used to track bucket purchases is not efficient or effective.
 - a. A difference of \$283,859.56 was identified when comparing total expenditures per Procurement's Furniture, Fixture, and Equipment (FFE) bucket spreadsheet and Internal Audit's (IA) expenditure analysis. This difference indicated the FFE bucket spreadsheet was not accurate and not complete.
 - b. From a sample of 40 purchase orders (POs), 10 had data omission or input errors. For example, (i) POs referenced cooperative/interlocal agreement contracts, but were not included in the bucket spreadsheet; (ii) PO amounts were incorrectly entered into the bucket spreadsheet; and (iii) a vendor's name was incorrectly entered in the bucket spreadsheet.
 - c. The task of tracking bucket purchases takes at least 50% of an employee's daily workday to complete.
 - d. Purchase order entries in the bucket spreadsheet do not include the PO date. The PO date could assist Procurement staff in (i) confirming if the bucket expenditure falls within the effective dates of the bucket and (ii) determining the available balance of the bucket at a specific point in time.
 - e. The Procurement staff has not determined which amount should be entered in the bucket spreadsheet ("Total Amount" or "Paid Amount" per Frontline). The "Paid Amount" can differ from the "Total Amount," which may overstate/understate bucket balances.
 - f. Two (2) POs for Barnes and Noble for similar purchases (books) were allocated to two different buckets. Inconsistent allocation of purchases in the bucket spreadsheet could be a result of not clearly defining the criteria to allocate purchases.
 - g. The bucket spreadsheet is not consistently reviewed for accuracy and completeness by Procurement management.

2. Four (4) instances where the District did not receive a discount as indicated in the cooperative/interlocal agreement contract.
 - a. For one (1) purchase order (PO), District management did not take advantage of a discount of \$449.90.
 - b. For three (3) other POs, a potential discount of 5% could have been applied.
3. The supporting documentation to justify four (4) buckets for \$37M, submitted to the Board of Trustee (BOT) for approval, was inconsistent, which lessens accountability.

What We Recommend

Internal Audit made six (6) recommendations to address the findings reported. Recommendations for the Procurement staff include:

1. Consult with the Superintendent to determine whether the District should continue with the bucket practice.
2. If a decision is made to continue with this practice, Procurement management should develop and document criteria/procedures to track purchases associated with buckets. Procurement should also develop policies and procedures to address the methodology and basis to justify buckets presented for BOT approval.
3. Work with Information Technology (IT) and/or Analytics, Strategy, Assessment & PEIMS (ASAP) to explore ideas on how to automate the tracking of cooperative/interlocal agreement purchases by vendor to ensure compliance with Board Policy CH (Local).
4. Follow up to determine if a refund is due to the District for the discounts not taken related to finding 2 (the four (4) POs).
5. Train campus/department requestors on the appropriate way to review for discounts when procuring goods/services through a cooperative/interlocal agreement contract.
6. Define responsibilities for Procurement staff and the campus/department requestors for reviewing discount details when procuring goods/services through a cooperative/interlocal agreement contract. Once this is determined, the responsibilities should be clearly documented in the Procurement Manual or the department's standard operating procedures.

Management's Response

Management and leadership agreed with the audit findings. District management and leadership submitted a Corrective Action Plan (CAP) outlining eight (8) activities to be implemented. All the recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings outlined in this report. Internal Audit will conduct follow-up reviews to validate CAP activities have been implemented.



Internal Audit Report

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Objective and Scope

The objectives of the audit were to determine if:

1. District purchases comply with the following terms of the cooperative/interlocal agreement contract.
 - a. Purchases were made within the effective dates of the contract.
 - b. The goods/services purchased are listed in the contract.
 - c. Purchase amounts match the established contract pricing list (if applicable).
2. The Procurement Department is accurately tracking cooperative/interlocal agreement purchases approved by the Board of Trustees (BOT).

The audit scope included purchases (buckets) approved by the BOT from July 1, 2020, to September 30, 2021, to acquire goods/services through cooperative/interlocal agreements.

Results and Recommendations

Procurement staff verify that District purchases comply with the following two (2) terms of the cooperative/interlocal agreement contracts: (i) purchases are made within the effective dates of the contract, and (ii) the goods/services purchased are listed in the contract.

However, we identified one (1) finding related to the tracking of bucket purchases, one (1) finding related to the review of discounts offered through cooperative/interlocal agreement contracts, and one (1) finding related to supporting documentation maintained to justify the amounts requested for bucket approvals.

Detailed findings and corresponding recommendations follow. We would like to acknowledge and thank the Procurement Department's management and staff for their assistance during this audit.

Finding 1

The manual method used to track bucket purchases is not efficient or effective since errors/omissions were identified

The Procurement staff uses a spreadsheet to manually track cooperative/interlocal agreement purchases associated with the buckets approved by the Board of Trustees (BOT). The purpose of this spreadsheet is to monitor the balances of the BOT-approved bucket amounts and to avoid non-compliance with Board Policy CH(Local).

Manual processes carry a higher risk of human error and lead to inefficient use of staff time. In addition, Procurement management have not developed criteria/procedures to aid in tracking cooperative/interlocal agreement purchases through buckets. Therefore, the Procurement staff maintaining the spreadsheet are allocating purchases judgmentally into the bucket spreadsheet.

- A. A difference of \$283,859.56 was identified when comparing total expenditures per Procurement's Furniture, Fixture, and Equipment (FFE) bucket spreadsheet and Internal Audit's (IA) expenditure analysis, indicating the FFE bucket spreadsheet was not accurate and not complete. Therefore,

we could not reconcile the FFE bucket based on the allocation criteria provided by Procurement management.

Per Procurement management, only expenditures with the categories (i) Furniture Cafeteria, Library, Lounge, School, (ii) Furniture Laboratory, and (iii) Furniture Office, Bookcases in Frontline should be allocated to the FFE bucket spreadsheet. However, IA's expenditure analysis identified that other categories were allocated to the FFE bucket spreadsheet. A sample of 60 POs was selected to identify other categories used. The following was identified:

- Forty (40) of 60 purchase orders (POs) had 16 categories other than those indicated by Procurement management.
- The 16 categories for the 40 POs totaled \$1,074,580.94. The categories are listed in **Figure 1** below.

Figure 1 – Other Categories Found in the FFE Bucket

Categories	Total
Construction Building Permits, Archeological Service, Water Test	\$427,128.00
Athletic Equipment Sporting Goods, PE Supplies	\$227,351.25
Technology Maintenance, Repair Contracts	\$223,805.00
Utilities Electricity	\$141,232.51
Music Instruments, Accessories and Supplies	\$12,207.66
Instructional Material School Equipment, Teaching Aids	\$10,794.37
Instructional Supplies	\$5,967.55
Audio Visual Equipment, Accessories and Supplies	\$5,883.92
Medical Related Accessories and Sundry Items,	\$4,852.00
Builder's Supplies General	\$3,323.89
Promotional Items Metals, Awards, Badges, Trophies	\$2,849.00
Equipment And Supplies, Conduit, Ballasts, etc.	\$2,638.00
First Aid Equipment, Supplies, Blankets, Gloves, Masks, etc.	\$2,563.00
Technology Printers	\$1,735.00
Technology Computer Accessories and Supplies	\$1,210.03
Office Supplies General	\$1,039.76
	\$1,074,580.94

- B. From a separate sample of 40 POs, 10 had data omission or input errors.
- Six (6) POs with reference to a cooperative/interlocal agreement contract were not allocated in the cooperative/interlocal agreement purchases spreadsheet (bucket spreadsheet). Procurement management could not provide a definite answer on whether the POs should have been allocated to the bucket spreadsheet.
 - Three (3) PO amounts were incorrectly entered into the bucket spreadsheet. The difference was \$383.57.
 - One (1) PO had a vendor name entered incorrectly into the bucket spreadsheet.
- C. Inefficiencies identified when reviewing the bucket spreadsheet follow.

- Per Procurement management, the task of tracking bucket purchases takes at least 50% of an employee's daily workday to complete.
- Purchase order (PO) entries in the bucket spreadsheet do not include the PO date. The PO date could assist Procurement staff in (i) confirming if the bucket expenditure falls within the effective dates of the bucket and (ii) determining the available balance of the bucket at a specific point in time.
- The Procurement staff has not determined which amount should be entered in the bucket spreadsheet ("Total Amount" or "Paid Amount" per Frontline). The "Paid Amount" can differ from the "Total Amount," which may overstate/understate bucket balances.
- Two (2) POs for Barnes and Noble dated 12/9/2020 and 1/27/2021 for a similar purchase (books) were allocated to two different buckets. Purchase order dated 12/9/2020 was allocated to the Instructional bucket and PO dated 1/27/2021 to the Library bucket. Inconsistent allocation of purchases in the bucket spreadsheet could be a result of not clearly defining the criteria to allocate purchases.
- The bucket spreadsheet is not consistently reviewed for accuracy and completeness by Procurement management. Therefore, data omissions and input errors might not be identified timely.

Recommendations

The Procurement management should:

- 1.1 Consult with the Superintendent to determine whether the District should continue with the bucket practice. If a decision is made to continue with this practice, Procurement management should develop and document criteria/procedures to track purchases associated with buckets. The criteria/procedures should include, but not be limited to which vendors, object codes, cooperative/interlocal agreement contract numbers, and/or Frontline categories should be allocated to each bucket.

Management and Leadership Response: Agreed with the recommendation and incorporated into the CAP as activity one (1).

Person(s) Responsible: Superintendent; Chief Financial Officer; and Executive Director of Procurement and School Resources

Implementation Date: 12/15/2022

- 1.2 Work with Information Technology (IT) and/or Analytics, Strategy, Assessment & PEIMS (ASAP) to explore ideas on how to automate the tracking of cooperative/interlocal agreement purchases by vendor to ensure compliance with Board Policy CH (Local). Procurement management should develop procedures on how the tracking/reports will be monitored for compliance with Board policy.

Management and Leadership Response: Agreed with the recommendation and incorporated into the CAP as activities two (2) and three (3).

Person(s) Responsible: Executive Director of Procurement and School Resources; Executive Director Analytics Strategy Assessment & PEIMS; and Chief Information Officer

Finding 2

In four instances, the District did not receive a discount as indicated in the cooperative/interlocal agreement contract

The following was identified in four (4) of 40 purchase orders (POs) tested.

- For one (1) PO, the District did not take advantage of a discount of \$449.90. The vendor provided a quote that included a 5% discount (on an \$8,998.00 purchase). However, the PO did not include the discount, and the department paid the full amount of the purchase.
- For three (3) other POs, a potential discount of 5% could have been applied. Per the cooperative/interlocal agreement contract, the items purchased could have qualified for a discount.

The 40 POs we tested and the supporting documentation found in Frontline showed no indication that discounts (if any) were verified. The Procurement staff confirmed that discounts are not verified against the cooperative/interlocal agreement contracts when they review/approve requisitions.

Procurement staff indicated that requestors at campuses/departments know how to verify discounts and ensure they are applied to purchases. However, requestors may not have the adequate resources or training to determine if discounts (if any) should be applied. For example, not all requestors have BuyBoard credentials to log in and view the cooperative/interlocal agreement contracts online. In addition, training has not been provided consistently by the Procurement staff to requestors at campuses/departments.

If requisitions are not being reviewed to confirm if discounts were given, there is a risk the District may not be taking advantage of the cost savings benefit of procuring goods/services through a cooperative/interlocal agreement contract.

According to the Procurement Services Manual, "Cost savings through a regional centralized purchasing function [Cooperative Purchasing Groups-Interlocal Agreements] are achieved through both discounted prices and administrative cost savings to individual Districts."

Recommendations

The Procurement staff should:

2.1 Follow up on the four (4) POs to determine if a refund is due to the District.

Management and Leadership Response: Agreed with the recommendation and incorporated into the CAP as activity four (4).

Person Responsible: Executive Director of Procurement and School Resources

Implementation Date: 07/30/2022

2.2 Train campus/department requestors on the appropriate way to review for discounts when procuring goods/services through a cooperative/interlocal agreement contract. This includes providing the requestors the adequate resources to review for discounts (links, log-in credentials, etc.). The training should be offered to new requestors and periodically as a refresher to current requestors.

Management and Leadership Response: Agreed with the recommendation and incorporated into the CAP as activities five (5) and six (6).

Person Responsible: Executive Director of Procurement and School Resources

Implementation Date: 12/15/2022 and 01/31/2023, respectively

- 2.3 Define responsibilities for the Procurement staff and the campus/department requestors as it relates to reviewing for discounts when procuring goods/services through cooperative/interlocal agreements contracts. If it is determined that the review for discounts will be the responsibility of the requestors, a method should be developed so that requestors document their review for discounts and Procurement staff can rely on this review. Procurement staff should clearly document the responsibilities in the Procurement Manual or their standard operating procedures.

Management and Leadership Response: Agreed with the recommendation and incorporated into the CAP as activity seven (7).

Person Responsible: Executive Director of Procurement and School Resources

Implementation Date: 01/31/2023

Finding 3

The supporting documentation to justify four buckets for \$37M, submitted to the BOT for approval, was inconsistent, which lessens accountability

The supporting documentation for the four (4) buckets in our sample (listed in **Figure 2**) varied from one or a combination of the following sources: (i) projected amounts based on previous expenditures, (ii) budgeted amounts, and (iii) emails from budget owners indicating the amount. The emails did not specify how the bucket amounts were determined, and the other supporting documentation was not readily available or easily understood. Inconsistent supporting documentation for decisions made by District management lessens accountability and may not withstand public scrutiny.

The Procurement staff has not developed written policies and procedures to address the methodology and basis used to determine the bucket amounts presented for BOT approval. In addition, there are no guidelines specifying the supporting documentation to maintain and for how long. Therefore, management is not maintaining consistent supporting documentation to justify buckets.

Figure 2 –Bucket Sample

Date	FY	Description	Amount
11/17/2020	20-21	Purchase Furniture, Fixtures, and Equipment	\$ 15,000,000
3/9/2021	20-21	Purchase Technology Supplies, Equipment, Software, Services, and Support	\$ 5,000,000
8/17/2021	21-22	Purchase Custodial Products and Support Service Requirements	\$ 2,000,000
9/21/2021	21-22	Purchase Instructional Supplies and Materials	\$ 15,000,000
			<u>\$ 37,000,000</u>

Recommendation

3.1 If the Superintendent determines the District should continue with the bucket practice, the Procurement staff should develop procedures to address the methodology and basis to justify buckets presented for BOT approval. The procedures should include, but not be limited to:

- The reports/data that can be used to determine the bucket amounts (e.g., historical expenditures, budgeted amounts, future projections, inflation percentage).
- The retention requirements for the reports/data used to determine bucket amounts.
- The supporting documents required when submitting a bucket for BOT approval.
- Responsibilities for Procurement staff and the bucket requestors.

Management and Leadership Response: Agreed with the recommendation and incorporated into the CAP as activity eight (8).

Person Responsible: Executive Director of Procurement and School Resources

Implementation Date: 01/31/2023



Appendix A: Background and Methodology

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Background

A cooperative/interlocal agreement is one (1) of the seven (7) approved purchasing methods identified by the Texas Education Code §44.031 Purchasing Contracts.

Cooperative/interlocal agreement contracts are competitively solicited and awarded by entities with which the District has approved agreements. These contracts allow the District to purchase goods/services in an expeditious manner and provide flexibility and availability to a pool of vendors. A cooperative/interlocal agreement contract is favorable for buyers, who may benefit from lower prices, lower administrative costs, and better terms and conditions.

The Procurement Department introduced the “bucket” purchasing practice in 2014. According to Procurement staff, the bucket practice was created to (i) expedite the day-to-day purchases for the campuses/departments, (ii) reduce the number of items taken to the BOT for approval, and (iii) remain in compliance with Board Policy CH(LOCAL). Board Policy CH (Local) requires that “Unless otherwise provided in this policy, the following shall require Board approval...6. Interlocal cooperative contract purchases of \$100,000 or more per vendor in the aggregate of a 12-month period.”

A Board of Trustees (BOT) approved bucket is an authorization to spend budgeted funds, up to an amount proposed by management, over a 12-month period using vendors in cooperative/interlocal agreement contracts. The bucket practice provides management pre-approval to exceed the \$100,000 per vendor without submitting each vendor individually for BOT approval. From July 1, 2020, to September 30, 2021, the District had ten (10) approved buckets ranging from \$400,000 to \$15M, totaling \$61.9M.

For Fiscal Years (FY) 2017-18 to 2021-22, 106 to 172 vendors were paid more than \$100,000 per FY. See **Figure 3** below for details.

Figure 3 – Number of Vendors paid more than \$100,000 per FY

Range	FY2017-18	FY2018-19	FY2019-20	FY2020-21	FY2021-22*
\$100K - \$200K	64	68	60	72	44
\$201K - \$500K	62	54	52	51	32
> \$500K	41	41	44	49	30
Total	167	163	156	172	106

*The vendor data for FY2021-22 is as of January 21, 2022

The Interlocal Cooperative Contract Purchases (Buckets) Audit was approved by the Board of Trustees as part of the 2021-2022 Internal Audit Plan.

Methodology

To achieve our audit objective(s), we:

1. Researched relevant state laws and regulations, Board policies, and the Procurement Services Manual.
2. Used pre-audit and internal control questionnaires and performed walkthroughs to obtain an understanding of the Procurement Department's

administrative functions, operations, processes, and controls in place as they relate to cooperative/interlocal agreement purchases and buckets.

3. Performed a risk assessment based on our understanding of the Procurement Department's process and controls.
4. Selected a sample of purchase orders (PO) for the scope period in review to determine:
 - District compliance with cooperative/interlocal agreement contracts.
 - If cooperative/interlocal agreement purchases thru buckets are accurately tracked.
5. Selected a sample of buckets approved by the Board of Trustees (BOT) for the scope period in review to:
 - Identify the reports/data used to determine the bucket amount to request.
 - Reconcile expenditures associated with the bucket.
6. Conducted an analysis for the period of July 1, 2017, to January 21, 2022, to determine the number of vendors that reached the aggregate of \$100k over a 12-month period.

Because of the inherent limitations in a system of internal controls, there is a risk that errors or irregularities occurred and were not detected. Due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent. Accordingly, an auditor is able to obtain reasonable, but not absolute, assurance that procedures and internal controls are followed and adhered to in accordance with the federal, state, local policies, and guidelines.



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