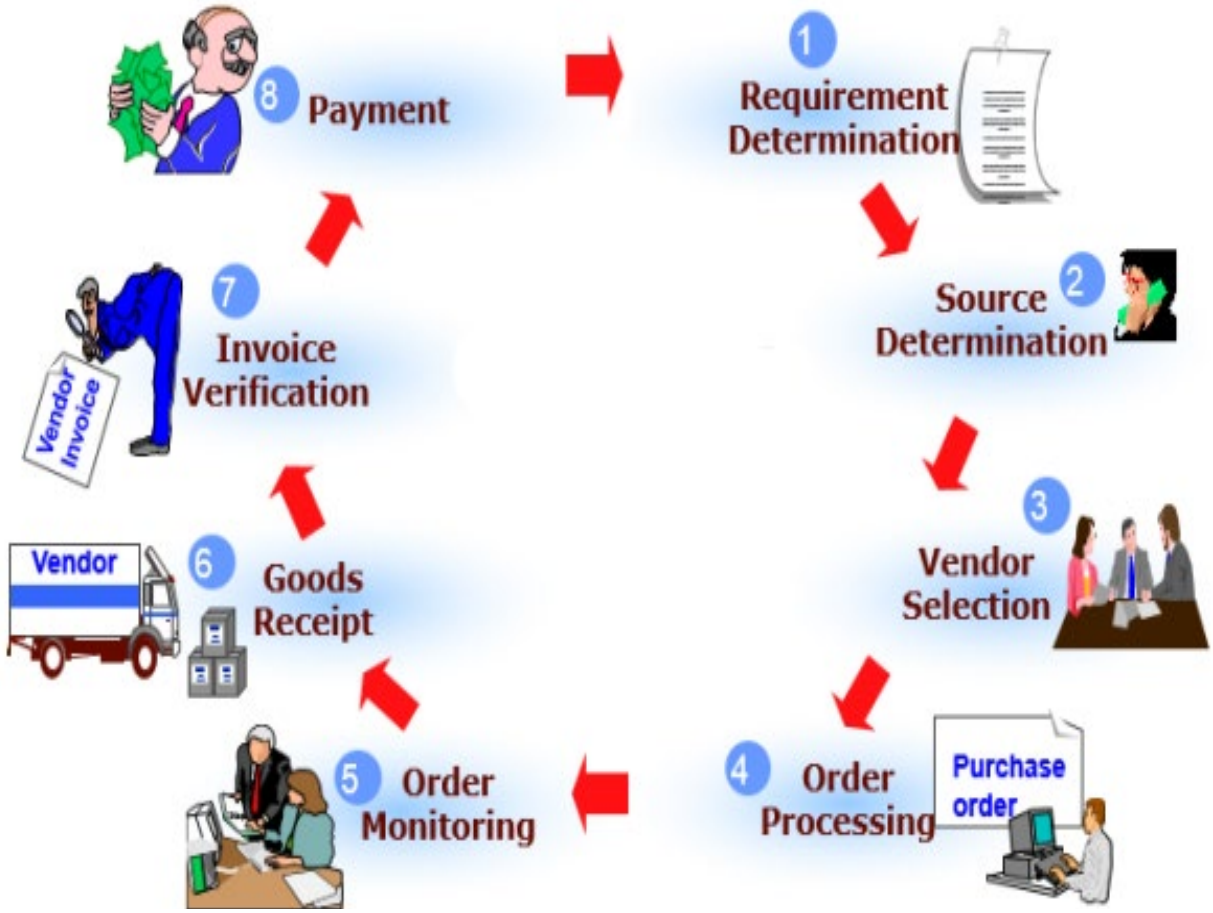
TUCSON UNIFIED
SCHOOL DISTRICT

February 28, 2022
OFFICE OF INTERNAL AUDIT

Purchase Department

Internal Audit Report



REPORT #: 004_FY2021-2022

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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:

- Interviewing the Director of the department.
- Filling out an Internal Control Questionnaire (ICQ).
- Conducting research and obtaining insight from the department's staff.
- Testing of selected processes and procedures was conducted to evaluate the flow of data.
- 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, and inputting vendors' information in the system, creating, updating, and processing purchase orders for all transactions required to have a purchase order. The PD's staff members perform their daily activities using Infinite Visions (iVisions). iVisions is an Enterprise Resource Planning (ERP) software designed to aid in the flow of an organization's processes; it is intended to provide a real-time view of activities performed by departments.

The purchasing process is highly scrutinized due to its financial impact, public perceptions, and volume of transactions performed by the district. Purchase orders are a binding contract; while there are some standard requirements with most purchases, the criteria will vary depending on the type of transaction and funds being used. For example, a construction contracts versus a cooperatives contract have different constraints. As does purchases through a standard line purchase request, versus blanket purchase orders, or a punch-out acquisition. The purchasing process is rather complex; there are numerous standards, guidelines, rules, and regulations that a purchase department must navigate through to ensure they are in compliance.

STATEMENT OF AUDITING STANDARDS

The audit followed the Institute of Internal Auditors (IIA) and District policies and procedures. The following organizations and standards were used as criteria for this audit: Arizona State Regulations (ARS), Arizona's Procurement Code, Arizona Revised Status (ARS), Arizona Administrative Code by the State Board of Education, Arizona Auditor General -Uniform System of Financial Records (USFR), Arizona Department of Accounting (ADOA -GAO) -State of Arizona Accounting Office (SAAM), Arizona Department of Education (ADE), Department of Education (DOE), Federal Acquisition Regulation (FAR), Governing Accounting Standards (GAO), Generally Accepted Government Auditing Standards (GAGAS), and the Internal Revenue Services (IRS). Additional research was conducted for applicable and acceptable industry standards, also known as best practices, for findings that have no specific criteria.

AUDIT PURPOSE AND OBJECTIVES

The purpose of the compliance audit was to determine adherence with applicable criteria and provide management with reasonable assurances of the PD's operation.

The objectives were developed to evaluate the PD's process, analyze the department's data integrity, appraise their efficiency, review their internal controls, and conformance with governance.

The audit objectives were accomplished by interviewing the department's director, meeting with staff, meeting with IT administrators for the iVisions application, conducting testing of transactions, evaluating internal controls, and reviewing applicable policies, procedures, rules, regulations, and standards, from the list noted on the "statement of auditing standards" sections in this report.

AUDIT SCOPE, METHODOLOGY, AND EXCLUSIONS

The audit scope was from October 1, 2019, through October 1, 2021. The audit focused on the purchasing process from sites and/or departments.

The audit objectives were performed by interviewing the Director of PD, meeting with PD staff, and analyzing provided data uploaded into a shared team folder. This also included research on standard procurement procedures, reviewing internal controls, and evaluating the departments current practices.

Two methods were used to select the testing sample from iVisions: Random selection was used to select 30 sites and departments from the 152 Department Access Code (DAC) listed in the iVisions system.

1- Interval (systematic) sampling method was used to retrieve 300 transactions in iVisions; the amounts started at $250 and exceeded $250,000.
   a. The selected sample was further divided and tested in the categories described in the table below:

Description	School Year: 2019-2020		School Year: 2020-2021	
	Tested 150 purchases	# With Missing or Limited Docs.	Tested 150 purchases	# With Missing or Limited Docs.
Purchase requisitions:	30	15	50	20
Purchase Orders (PO):	75	45	80	33
Vendors Missing W-9:	30	15	30	13
Employee Mileage Reimbursements:	50	48	60	57

The following reviews were conducted during the audit, but were not limited to analysis of:

1- The purchasing department's overall workflow process.
2- Internal controls to determine if they prevent unwise spending, theft, and fraud.
3- Purchase order samples for existence and completeness.
4- Purchase requisitions, purchase orders, and change requests were cross referenced.
5- Segregation of duties in iVisions.
6- Stewardship of assets.

Results of the internal audit were obtained by evaluating the department's activities to determine compliance with applicable district policies, procedures, regulations, laws, state standards and guidelines.

The list of observations was communicated to the Director of PD during the exit meeting to confirm, verify, and obtain clarification were necessary.

Excluded from this internal audit were vendor contracts for construction, Purchasing Cards (P-Cards), and travel; the excluded items may be scheduled to be audited at a future time.

Internal Audit's due professional care:
Audits are designed to assess the organization's operation, authenticate the reliability and accuracy of data, detect and prevent fraud, strengthen internal controls, evaluate adherence to policies and procedures, and promote effective and efficient use of resources.

Internal audits are conducted to provide management with reasonable –not absolute- assurance that the organization's objectives will be met. Audits can only evaluate, analyze, develop conclusions and recommendations based on the internal data provided by the auditee.

All audits contain an element of inherent risk; this is a limitation that may include but is not limited to: lack of written policies, non-disclosures or withholding, errors caused by human oversights, potential undetected fraud, illegal acts, or instances of noncompliance that go undetected, technology/system limitations, inadequate controls, changes in conditions, employees circumventing set processes, management overriding systems, changes in leadership, etc.
The reasons behind the inherent risks are countless.

Audit observations and recommendations are listed below in the order of their perceived risk.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. COMPLETED PURCHASE ORDERS ARE BEING ALTERED

   Condition: Purchase orders are being altered after the fact.

   Criteria: Federal Acquisition and Regulation (FAR) -13.302-3 (b): 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." [1]

   FAR -13.302-5 (a) Clauses state: "Each purchase order (and each purchase order modification (see 13.302-3)) shall incorporate all clauses prescribed for the particular acquisition." [2]

   Clarification: A modification to a purchase order is an additional document, not an alteration of any preexisting document.

   Effect: Loss of records / diminished integrity of data. Missing documentation required for future potential audits (internal or external).

   Cause: The initial cause is estimating fees versus obtaining actual costs from venders. The final cause is altering completed documents.

   Recommendation:

   a. Completed documents should never be altered, changed, or adjusted without an audit trail.
   b. If unexpected changes arise a new document should be created to explain those changes.

RESPONSE:

All staff will be retrained on the iVisions PO revision process (revision entry through approval flow) to ensure the iVisions PO revision process is being followed per

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

2. MISSING PURCHASE REQUISITION NUMBERS

Condition: Some purchase request numbers are not able to be located in the system. Criteria: Uniform System of Financial Records (USFR), Accounting Procedures Expenditures -*Policies* (6), states "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." [3]

USFR -Procedures- VI-G-2 (1): "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." [4]

USFR -Procedures- VI-G-3 (9): "Prepares a sequentially numbered purchase order (VI-G-22 and 23)…" [5]

Effect: There should be a record of every purchase request created in the system, from 1 through the highest number used. As of 2/10/2022 the highest number in the system was 1,234, 567,891. There are numerous missing purchase request numbers between 1 and 1, 234,567,891. All purchase requests and purchase request numbers should be generated in sequential order. Additionally, there should be a permanent record of all purchase requests and purchase request numbers.

Cause: Some unfulfilled or unapproved purchase requests, and their related numbers, are being deleted from the system. Some purchase requests are submitted with the intention of being fulfilled in future years. Those particular purchase requests are being assigned numbers that are out of sequence, which is also creating major gaps in the numbering sequence.

Recommendations:

a. Keep complete and accurate records of all purchase requisitions and purchase request numbers.
b. Do not generate purchase request numbers out of sequence.

RESPONSE:

Purchase requisitions are deleted from the system to release pre-encumbrances from the general ledger. Going forward, all staff will be prohibited from deleting requisitions in iVisions except for the Purchasing Staff. The Purchasing staff will maintain a log of all deleted requisitions and copies of all supporting documentation.

3. MISSING INFORMATION AND/OR DOCUMENTATION

Condition: Of the 80 purchase requests evaluated, 35 were missing supporting documentation. Of the 155 purchase orders evaluated, 78 were missing supporting documentation.

Criteria: Purchasing Procedures -Policy Code: DJE-R: 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." [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 follow District policies and contain established contracted items and pricing and this is the supporting information used to create Requisitions and Purchase Orders.

4. UPDATE PURCHASING PROCEDURES POLICY

Condition: Some transactions did not contain a copy of the purchase order, only a vendor's quote.

Criteria: District policy code: DJE -After-the-Fact Procurements- states, "A properly executed purchase order shall be issued for the acquisition of all goods, personal services and construction." [8]

Effect: Vendor quotes and purchase orders are commonly two different and separate documents.

Cause: District's policy code: DJE (Purchasing Procedures Policy) does not reflect PD's electronic purchasing process in which an accepted vendor's quote is used as the purchase order.

Recommendation:

a. Update the policy to reflect the electronic purchasing process.

b. Consider working with the District's Legal Department to update the policy and ensure department activities and practices adhere to regulating and acceptable standards.

RESPONSE:

Purchasing will update our documentation for the Electronic Ordering Process and work with the District's Legal Department to update our Purchasing policy.

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 abilities to self-approve their own work; this circumvents internal controls.

Cause: Access and rights in the system are currently not specific to the job descriptions of the staff members.

Recommendation:

a. Create specific access rights within the system to ensure preventative internal controls are in place to prevent a conflict of interest between the employees' roles.

RESPONSE:

Purchasing Administration will revise iVisions rights for all Purchasing staff to eliminate any conflict where an employee can approve their own work.

6. "VENDOR" REIMBURSEMENT FOR MILEAGE EXPENSE

Condition: Employees being reimbursed for mileage expense are being mislabeled as "Vendor" in the iVisions application.

Criteria: IRS Publication 5137 (Rev. 2-2020, Pg. 34) states "Reimbursements for Use of Employee-Owned Vehicles Government employees often use their personal automobiles for official use. An employee can deduct the costs of operating a vehicle for work as an employee, using either actual expenses or a standard mileage rate. If an employer reimburses these expenses under an accountable plan, they are not deductible by the employee, but may be excludable from the employee's income. If reimbursements are not consistent with accountable plan rules, or exceed the allowable amounts, they may be taxable as wages. " [10]

Effect: There are people recorded in the system as "Vendors" when they are not actually vendors. This also means there are vendors in the systems without corresponding W-9s (as required for vendors).

Potential tax reporting violations for the individual employees.
The department is processing and closing the employee mileage reimbursement transactions in the system.

Cause: Mislabeling employees as vendors.

Recommendation:

a. Non-vendors should not be paid/recorded as vendors.

b. Employee reimbursements, of all types, should be recorded appropriately and accurately.

c. Follow Governing Accounting Standards and do not misuse defined terms.

RESPONSE:

IVisions has a field called Category Assignment and will be used to identify employees set up as vendors.

7. CONFLICTING INFORMATION

Condition: The purchasing department's "Problem Worksheet Procurements" in SharePoint does not align with the "After-the-Fact Procurement" section of the District's Purchasing Procedures in DJE.

Criteria: DJE-R -After-the-Fact Procurements – "After-the-Fact procurement violate State and federal laws, school district procurement rules and Governing Board Policy. An After-the-Fact procurement occurs when a school site or department orders materials, services or construction prior to a purchase order being issued by the Purchasing Department. It is illegal for a school district staff to authorize the procurement of products or services, or to financially obligate the District without a properly issued purchase order. Also, if a school site or department overspends the dollar amount of a current purchase order without prior authorization from the Purchasing Department, or orders restricted items from blanket purchase order, and After-the-Fact procurement results." [11]

Effect: Non-adherence to of policy and/or procedure.

Image 1: Purchasing Department's SharePoint (pg. 1/3) [12]

Problem Worksheet Procurements

The following is a list of items that are generally not considered after-the-fact purchases:

- Items for which there was an original purchase order, but items were received after the fiscal year end.
- Items for which there was an original purchase order, whose total has increased (or decreased) due to errors or adjustments from incorrect tax, incorrect freight charges, erroneous math calculations or industry standard overruns (such as runs for plastic bags, printing and excess copy charges for copiers).
- A registration for a hotel, seminar, conference or training session for individual employees made in advance of the issuance of the purchase order for the purpose of reserving a quota, as long as the reservation incurs no penalty which would obligate the District financially and the purchase order is issued prior to attendance.
- Industry standard automatic renewal of cancelable services (magazine subscriptions, minor equipment service agreements) for which notification was received with insufficient time for processing.
- Errors in shipments, over shipments, or deliberate unauthorized charges by vendors.
- Any emergency purchase made by authorized personnel in accordance Arizona Administrative Code R7-2-1056 and R7-2-1057.

Image 2: District's Purchasing Procedures -Policy Code -DJE[13]

After- the-Fact Procurements	A properly executed purchase order shall be issued for the acquisition of all goods, personal services and construction. If a school site or department orders materials, services or construction prior to a purchase order being issued, then an After-the-Fact procurement has occurred. After-the-Fact

DJE – Purchasing Procedures – 09/24/2019

4

Cause: Written instructions in the "Problem Worksheet Procurements" differ from the department policy. This is creating misunderstandings with other departments who are following the District's policy. Abiding by either one of these processes means you are not adhering to the other.

Recommendation:

a. Ensure that all department procedures and manuals are in compliance with all applicable polices and regulations.

RESPONSE:

Purchasing Administration 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: 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". 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 Fiscal Year End Checklist to ensure all POs are closed at year end.

9. INCOMPLETE OR MISSING VENDOR INFORMATION

Condition: Two vendors out of 30 did not have an attached W-9.

Criteria: USFR – VI-G-10 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." [15]

Effect: Missing W-9s prevents the verification of the vendors credentials.

Cause: Staff oversight.

Recommendation:

a. Obtain the currently missing W-9s.
b. Create and follow a checklist to ensure all necessary steps for inputting a vendor are performed.

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 Standards -GAO -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 mismanagement, inappropriate actions, and inadequate oversight." [16]

GAO 6.46 - Internal control plays an expanded role in the government sector. Given the government's accountability for public resources, assessing internal control in a government environment may involve considering controls that would not be required in the private sector. In the government sector, evaluating controls that are relevant to the audit involves understanding significant controls that the audited entity designed, implemented, and operated as part of its responsibility for oversight of public resources..."[17]

Effect: Additional expenses to the district / overpaying for essential and/or unique positions.

Cause: Not planning or preparing for employee absences.

Recommendations:

a. Plan for employee absences.
b. Teach subordinates the skill and abilities necessary to fulfill positions above them.

RESPONSE:

The Human Resources department will review all proposals to procure contracted services from a former employee to ensure reasonable cost and sustainable succession planning.

11. LIMITATIONS OF IVISIONS

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

Criteria: USFR -Systems Development Controls -IX-2 - "Districts should design controls for the acquisition and/or development of, and changes to, their computer systems and applications. IT systems should be developed or modified based on business needs defined by management and users." [18]

Effect: Insecure data.

The following functions are limited within the iVisions application:

a. It does not permit the user to delete a vendor, if doing so, it will remove all purchase history affiliated with the vendor.
b. An incident was noted during testing: When hovering the cursor over the date on the iVisions screen the "date" would automatically change to the current date causing the

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:

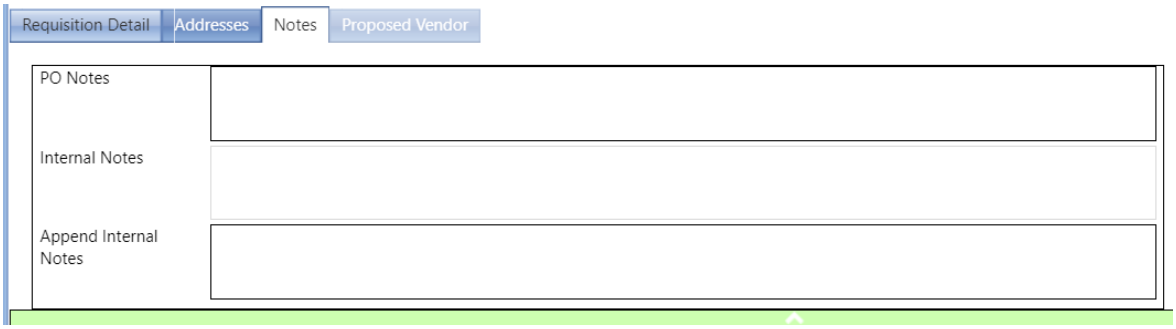
The iVisions system is used by most Arizona school districts. The district has worked with Tyler Technologies to improve functionality where possible.

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 Purchasing Department'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 governing standards.

The listed observations identify areas of needed improvement. A follow up audit may be conducted within the next six months.

ACKNOWLEDGMENT

The Office of Internal Audit wishes to express its appreciation to the Purchasing Department director and staff, and the Information Technology Department administrators of the iVisions/Parallels application for their assistance and cooperation during the audit.

Report No. 004 SY 2021-2022; provided to Governing Board on March 1, 2022.

Martha Smith 2/28/2022

Martha Smith Date
Internal Auditor

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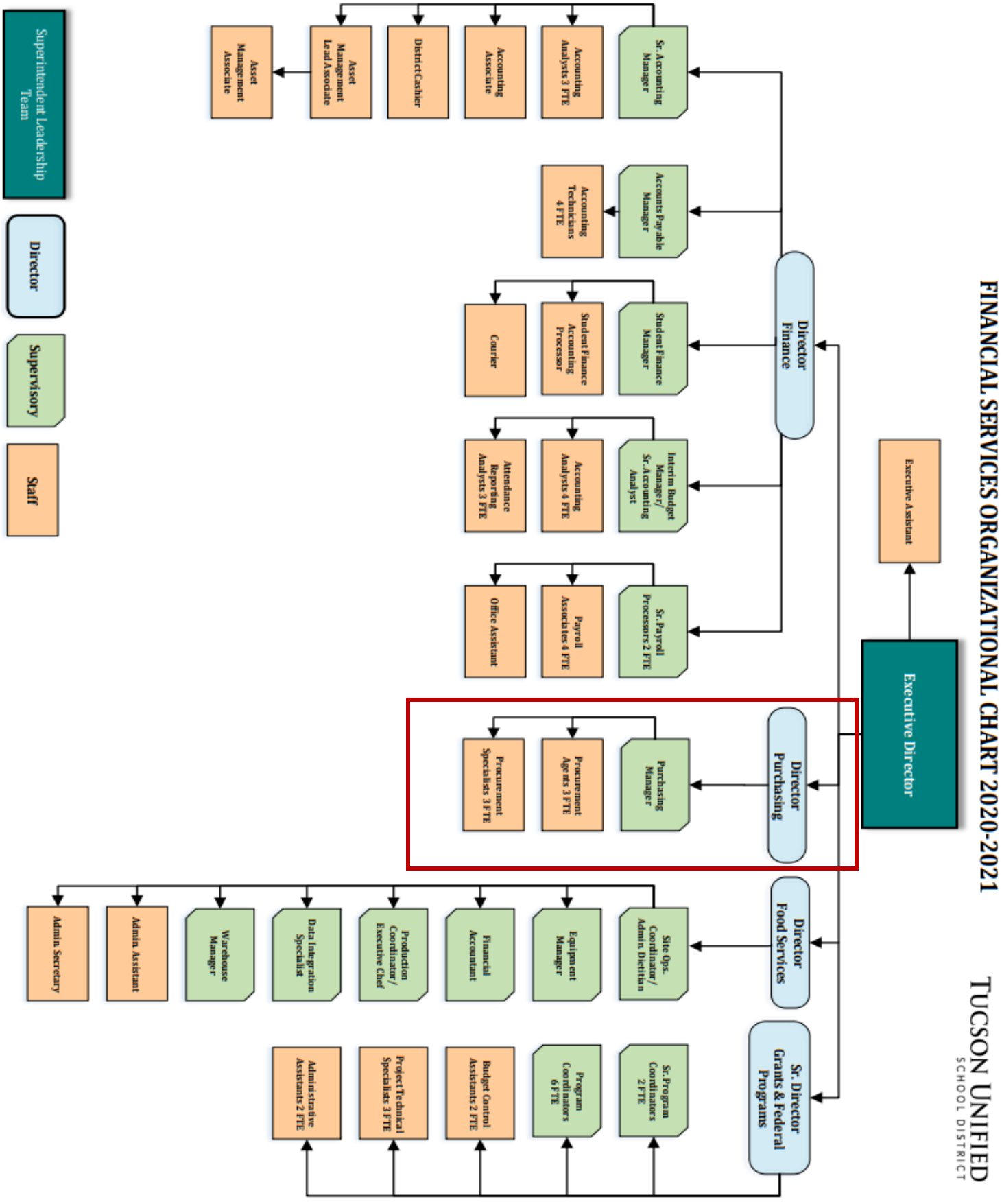
FIGURE 1

APPENDIX-A



APPENDIX-B

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* -Policies- 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** -P*rocedures* (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** -*Source Documents*- VI-B-2 (Page 101) – "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."

8. **District Policy Code: DJE -***After-the-Fact Procurements*-: "A properly executed purchase order shall be issued for the acquisition of all goods, personal services and construction." https://govboard.tusd1.org/Portals/TUSD1/GovBoard/docs/sectD/DJE.pdf

9. **USFR** -I*ntroduction*- VI-A, (Page 98). - "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. Districts should also periodically rotate responsibilities among employees when practical and require employees who process financial transactions to

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. 2-2020, (Pg. 34)-"Reimbursements for Use of Employee-Owned Vehicles Government employees often use their personal automobiles for official use. An employee can deduct the costs of operating a vehicle for work as an employee, using either actual expenses or a standard mileage rate. If an employer reimburses these expenses under an accountable plan, they are not deductible by the employee, but may be excludable from the employee's income. If reimbursements are not consistent with accountable plan rules, or exceed the allowable amounts, they may be taxable as wages. " Internal Revenue Services -Tax Exempt & Government entities- Office of Federal, State, & Local Governments: Fringe Benefit Guide. https://www.irs.gov/pub/irs-pdf/p5137.pdf

11. **District Policy Code:** DJE-R -*After-the-Fact Procurements* – "After-the-Fact procurement violate State and federal laws, school district procurement rules and Governing Board Policy. An After-the-Fact procurement occurs when a school site or department orders materials, services or construction prior to a purchase order being issued by the Purchasing Department. It is illegal for a school district staff to authorize the procurement of products or services, or to financially obligate the District without a properly issued purchase order. Also, if a school site or department overspends the dollar amount of a current purchase order without prior authorization from the Purchasing Department, or orders restricted items from blanket purchase order, and After-the-Fact procurement results." https://govboard.tusd1.org/Portals/TUSD1/GovBoard/docs/sectD/DJE.pdf

12. **"Problem Worksheet Procurements"** The following is a list of items that are generally not considered after-the-fact purchases:

    •Items for which there was an original purchase order, but items were received after the fiscal year end.

    •Items for which there was an original purchase order, whose total has increased (or decreased) due to errors or adjustments from incorrect tax, incorrect freight charges, erroneous math calculations or industry standard overruns (such as runs for plastic bags, printing and excess copy charges for copiers).

    •A registration for a hotel, seminar, conference or training session for individual employees made in advance of the issuance of the purchase order for the purpose of reserving a quota, as long as the reservation incurs no penalty which would obligate the District financially and the purchase order is issued prior to attendance.

    •Industry standard automatic renewal of cancelable services (magazine subscriptions, minor equipment service agreements) for which notification was received with insufficient time for processing.

    •Errors in shipments, over shipments, or deliberate unauthorized charges by vendors.

    •Any emergency purchase made by authorized personnel in accordance with Arizona Administrative Code R7-2-1056 and R7-2-1057." https://tusd1.sharepoint.com/sites/TUSDPurchasing

13. **District Policy Code:** DJE -*After-the-Fact Procurements*- A properly executed purchase order shall be issued for the acquisition of all goods, personal services and construction. If a school site or department orders materials, services or construction prior to a purchase order being issued, then an After-the-Fact procurement has occurred. After-the-Fact DJE – Purchasing Procedures –

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 mismanagement, inappropriate actions, and inadequate oversight. " https://www.gao.gov

17. **GAO-21-368G: 6.46** – "Internal control plays an expanded role in the government sector. Given the government's accountability for public resources, assessing internal control in a government environment may involve considering controls that would not be required in the private sector. In the government sector, evaluating controls that are relevant to the audit involves understanding significant controls that the audited entity designed, implemented, and operated as part of its responsibility for oversight of public resources..." https://www.gao.gov

18. **USFR** -*Systems Development Controls* -IX-2 (Page 229) - "Districts should design controls for the acquisition and/or development of, and changes to, their computer systems and applications. IT systems should be developed or modified based on business needs defined by management and users." https://www.gao.gov

19. **USFR -***Accounting Procedures*- Introduction- IX-1,(Page 228)"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." www.azauditor.gov

APPENDIX C

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 countries in business and industry, public practice, government, education, student affiliates and international associates." https://www.aicpa.org/

Arizona School Facilities Board (SFB): Created in 1998, the Arizona School Facilities Board (AZSFB) is a cabinet-level, state-government agency managing nearly $300 Million in state funding appropriated for K-12 school district facilities. The 10-member board meets monthly to grant funding for new school construction and to renew existing school facilities. https://sfb.az.gov/#:~:text=Created%20in%201998%2C%20the%20Arizona,to%20renew%20existing%20school%20facilities.

Best Practice - "A procedure that has been shown by research and experience to produce optimal results and that is established or proposed as a standard suitable for widespread adoption." Defined by Merriam-Webster

Blanket Purchase Order: "A blanket order, blanket purchase agreement or call-off order[1] is a purchase order which a customer places with it's supplier to allow multiple delivery dates over a period of time, often negotiated to take advantage of predetermined pricing. It is normally used when their is a recurring need for expendable goods. Blanket orders are often used when a customer buys large quantities and has obtained special discounts. Based on the blanket order, sales orders ('blanket releases' or 'release orders') and invoice items can be created as needed until the contract is fulfilled, the end of the order period is reached or a pre-determined maximum order value is reached." [2] https://en.wikipedia.org/wiki/Blanket_order

Cause - Defined by Standard 6.25 in GAS: The cause is the factor or factors responsible for the difference between the condition and the criteria and may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the difference between the condition and the criteria. https://www.gao.gov/assets/gao-21-368g.pdf

Criteria -Defined by Standard 6.25 in GAS: "Criteria: For inclusion in findings, criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report. In a financial audit, the applicable financial reporting framework, such as generally accepted accounting principles, represents one set of criteria." https://www.gao.gov/assets/gao-21-368g.pdf

Construction -Defined by Standard 6.26 in GAS: Condition: Condition is a situation that exists. The condition is determined and documented during the audit.

Construction – Defined by the Arizona State Legislature: '" Construction" means the process of building, altering, repairing, improving, or demolishing any school district structure or building, or other public improvements of any kind to any school district real property. Construction does not

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/15/00213-01.htm

Contract - Defined by Arizona state legislature: "means all types of state agreements, regardless of what they may be called, for the procurement of materials, services, construction, construction services or the disposal of materials." https://www.azleg.gov/viewdocument/?docName=https://www.azleg.gov/ars/41/02503.htm

Control - The Institute of Internal Auditors (IIA) defines control as any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goal will be achieved. https://global.theiia.org

Cost Benefit Analysis – It is a process used to make decisions. It takes into account both quantitative and qualitative factors for analysis of the value for money for a particular project or investment opportunity. Benefits to costs ratio and other indicators are used to conduct such analyses. The objective is to ascertain the soundness of any investment opportunity and provide a basis for making comparisons with other such proposals. https://economictimes.indiatimes.com/definition/cost-benefit-analysis

Due Diligence – "Due diligence is the process of obtaining and reviewing documentation to verify that the procuring entity procured contracts pursuant to the School District Procurement Rules and determining that the contract price and terms are favorable to the district to receive the best value for the good or service desired.

Whether administering or purchasing from a cooperative purchasing agreement, districts are responsible for ensuring that procurements are done in accordance with School District Procurement Rules." Defined by HG Legal Resources https://www.hg.org/legal-articles/what-is-the-relevance-of-industry-standards-under-the-law-36794

Effect - Defined by Standard 6.28in GAS: or potential effect: The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, effect is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks. https://www.gao.gov/assets/gao-21-368g.pdf

Generally Accepted Government Auditing Standards (GAGAS): Also known as the Yellow Book, are the guidelines for audits created by the Comptroller General and the audit agency of the United States Congress, the Government Accountability Office. https://www.gao.gov/yellowbook/overview

Industry Standard – "Is the average by which those in a particular field govern themselves. It is the ordinary manner of doing things in that field and can serve to establish different things in various legal settings." Defined by HG Legal Resources https://www.hg.org/legal-articles/what-is-the-relevance-of-industry-standards-under-the-law-36794

Internal Auditing – IIA's definition "Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. At its simplest, internal audit involves identifying the risks that could keep an organization from achieving its goals, making sure the organization's leaders know about these risks, and proactively recommending improvements to help reduce the risks." Additionally, "Internal auditors are explorers, analysts, problem-solvers, reporters, and trusted advisors. They bring objectivity and a

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 proper authorizations by designated officials for all actions performed that must be specified and followed." https://global.theiia.org

Market Basket – en.Wikipedia.org -" A market basket or commodity bundle is a fixed list of items, in given proportions. It's most common use is to track the progress of inflation in an economy or specific market. That is, to measure the changes in the value of money over time. A market basket is also used with the theory of purchasing price parity to measure the value of money in different places. https://en.wikipedia.org/wiki/Market_basket

Organizational Chart – "Organizational charts are the presentation of reporting relationships and employee roles in an enterprise. A well-structured organizational structure would help improve productivity, but a poor organizational structure can weak the organization." https://www.orgcharting.com/poor-organizational-structure/

W-9 – Arizona Department of Administration -General Accounting Office (GAO) "… While the Federal Form W-9 satisfies tax reporting and withholding responsibilities, only the GAO-W-9 both satisfies tax-related responsibilities and collects information necessary to comply with State fiscal reporting requirements. Because of its dual nature, the Form GAO-W-9 should be collected from all vendors to whom the State issues payments. Generally, vendors enter the State's automated systems by vendor self-entry though the Arizona Procurement Portal (APP). New or modified APP vendor entries are copied to AFIS each night. Adjunct to this process, a TIN-matching procedure is run that checks the legal name and Taxpayer Identification Number provided by the vendor against records maintained by the Internal Revenue Service. If there is a mismatch between the vendor-supplied information and the IRS' data, the GAO inactivates the vendor…. Vendors, also known as contractors, are those individuals and organizations that provide goods or services (and, if services, not under an arrangement that would categorize the provider as an employee) for an agreed upon price, often as a result of a competitive procurement process." https://gao.az.gov/sites/default/files/4541%20Form%20W-9%20190610.pdf