

Chapter 4

Section

4.11

School Boards— Acquisition of Goods and Services

Follow-up on VFM Section 3.11, *2006 Annual Report*

Background

Ontario's publicly funded elementary and secondary schools are administered by 72 school boards and 33 school authorities. According to the Ministry of Education (Ministry), total funding for public education in Ontario for the 2007/08 fiscal year was about \$18.4 billion (\$17.2 billion in 2005/06). While school boards spend the majority of their funding on salaries and benefits, they also spend several hundred million dollars on purchases of services, supplies, and equipment. Our audit in 2006 focused primarily on the acquisition of supplies and services and equipment and on contracted services and minor capital projects. Our audit excluded pupil transportation and capital expenditures for the construction of new schools. We also examined the policies and usage of corporate charge cards (purchasing cards).

In our *2006 Annual Report*, we concluded that the purchasing policies at the four school boards we audited (Durham District, Rainbow District, Thames Valley District, and York Catholic District) were adequate for promoting due regard for economy, and the boards were generally complying

with their policies and procedures. In addition, all four boards were participating in purchasing consortia in an attempt to reduce the cost of goods and services. However, we did note areas where compliance could be improved. For instance:

- School boards were using some suppliers for significant purchases, as well as for ongoing minor capital projects, for a number of years without periodically obtaining competitive bids.
- Rather than publicly advertising their needs, school boards often invited a selected group of suppliers to bid. As a result, only one or two bids were received for some significant contracts.
- Payments continued to be made to suppliers where the purchase order had expired and/or the amount on the purchase order had been exceeded.

While the four school boards generally had adequate policies governing use of corporate charge cards (purchasing cards), we had a concern about the lack of clear policies with regard to the use of board funds for employee recognition and gift purchases. As well, we had concerns about certain meal and travel-related expenditures at one school board.

Current Status of Recommendations

On the basis of a review by the Ministry's Internal Audit Services of acquisitions, payments, and purchasing-card transactions made by the four school boards—along with information provided to us by the four school boards—we note that action is being taken on all of our recommendations, with substantial progress being made on most of them, primarily those dealing with the use of purchasing cards and the acquisition of services. Two boards still had substantially more purchasing cards outstanding than they required.

The current status of actions taken on each of our recommendations is as follows.

COMPETITIVE ACQUISITION, FAIR AND OPEN ACCESS, PURCHASING DEPARTMENT INVOLVEMENT, PURCHASE ORDERS, AND CONTINUOUS RELIANCE ON CONTRACTORS

Recommendation 1

To better ensure that goods and services are acquired with due regard to economy and that effective purchasing practices are followed consistently throughout the board, school boards, should:

- *ensure that the purchasing department is consulted on all major purchases;*
- *ensure that all goods and services are acquired competitively in accordance with board policies;*
- *use a publicly advertised competitive process for major purchases or where the possibility of a shortage of bidders may exist;*
- *limit the number of years that a contract can continue without requiring a new competitive acquisition process;*
- *not permit purchase order expiry dates and limits to be exceeded; and*
- *periodically obtain bids for ongoing routine services.*

Current Status

According to information provided by the school boards and the work performed by the Ministry's Internal Audit Services, significant progress had been made by the four school boards in ensuring that their purchasing departments are consulted on all major purchases, and goods and services are acquired competitively in accordance with board policies. Internal Audit Services found that all four boards required that purchases be made competitively in accordance with this recommendation. In particular, each of the four boards required that goods and services exceeding a specific threshold be acquired centrally through its purchasing department.

Internal Audit Services selected samples of purchases at each of the four boards to assess whether the boards were complying with their policies. They found that most of the purchases were made on a competitive basis and in accordance with the boards' policies. However, there were still some instances, primarily at one board, where the policies were not followed. For example, over several months, the board had made several small purchases of mechanical supplies and of photographic equipment from the same suppliers without obtaining quotes. Such purchases can be significant on a cumulative basis. The board needed to periodically review such purchases to determine if pricing is competitive and to provide opportunities for other suppliers to compete for board business.

SUPPORTING DOCUMENTATION

Recommendation 2

To help ensure that due regard for economy can be demonstrated for all purchasing decisions, school boards should prepare and retain appropriate documentation.

Current Status

According to information provided by school boards and the review conducted by the Ministry's Internal Audit Services, the boards have complied with this recommendation.

CONTROLS OVER PAYMENTS

Recommendation 3

To help protect against the risk of not receiving services paid for, school boards should prohibit unnecessary prepayment for services.

Current Status

In general, Internal Audit Services found that all four boards had sufficient controls in place to avoid overpayments to suppliers. Each board required approvals when invoices exceeded the original estimate or purchase order and no exceptions were noted in their testing. For the one school board where prepayment had been an issue, the prepayment related to photocopy services. Internal Audit Services confirmed that, at the time of its follow-up work, the board was paying for services after it received monthly invoices for services already rendered.

PURCHASING-CARD MANAGEMENT

Verification of Transactions

Recommendation 4

To help ensure that only valid school board expenditures are charged to purchasing cards, school boards should enforce the requirements that proper detailed receipts be submitted to support all card purchases and that managers follow up on any unusual expenditures.

Employee Recognition and Gift Purchases

Recommendation 5

To help ensure that gifts to recognize employees are appropriate and justified, school boards should have clear policies regarding the use of board funds for employee recognition and gift purchases.

Meal Expenditures Using Purchasing Cards, and Travel and Conference Expenditures Using Purchasing Cards

Recommendation 6

To help ensure that meal and travel expenses are appropriate, school boards should ensure that:

- amounts claimed are reasonable;
- any personal expenses are not paid by the board; and
- the purchase of travel gift certificates is prohibited.

Card Utilization

Recommendation 7

To help limit the risk of inappropriate expenditures being incurred on purchasing cards, school boards should:

- review the number of purchasing cards that have been issued to staff; and
- cancel unnecessary cards.

Current Status

With respect to Recommendations 4 through 7 contained in our *2006 Annual Report*, the Ministry issued a policy memorandum in December 2006 to all school boards regarding expenditure guidelines for both trustees and school board staff to address the following areas:

- use of corporate credit cards;
- travel, meals, and hospitality;
- advertising; and
- advocacy.

The purpose of these guidelines was to define a province-wide standard that each school board would use to develop its own specific policies in each area or to assess its existing policies and guidelines. The Ministry also expected that all school boards would make their policies available on their public websites by March 31, 2007. According to Internal Audit Services, the Ministry was reviewing the existing related policies of all boards for consistency with the standard.

In April 2007, the Standing Committee on Public Accounts (Committee) held a hearing to discuss our 2006 report with the Ministry and the four school boards audited. In May 2007, the Committee requested that the Ministry report to the Committee by July 15, 2007, on the boards that had not posted the appropriate policies on their websites

as of June 30, 2007. At the same time, the Chair of the Committee also wrote to each school board in the province reinforcing the Ministry's requirement that board policies in these areas must be available for public scrutiny.

As of July 15, 2007, 56 of the 72 boards had posted their policies in all four areas on their websites. The Ministry has continued to monitor school board websites and, as of August 2008, 71 boards had posted their policies in all four areas.

In addition to the above, the current status of action taken on Recommendations 4 through 7 is as follows.

Recommendation 4

In our *2006 Annual Report*, we identified the risks associated with purchasing cards, including improper accounting, duplicate charges, and misuse by employees. Therefore, strict controls are needed to verify and approve transactions on monthly statements on a timely basis to ensure that payment is not made for goods and services that were not received.

According to the information provided by the school boards and the follow-up work performed by the Ministry's Internal Audit Services, all four school boards had followed this recommendation. They did note that one board needed to review its guidance to staff on the use of purchase cards for travel expenses to manage the risk of paying for the same expense twice: once through an expense claim and a second time when the card bill is paid.

Recommendation 5

Two of the four school boards indicated, and the Ministry's Internal Audit Services confirmed, that they had established policies on gifts or recognition, which clarified the circumstances under which gifts or acknowledgements are permitted. The other two had not.

Recommendation 6

The Ministry's Internal Audit Services tested a sample of expenses at the four school boards

and found that the majority of expenses were in accordance with board policy. Documentation was properly completed to ensure that staff expenses qualified for reimbursement. Meal and travel expenses tested were also in accordance with policy.

Internal Audit Services also noted significant improvement at the one board identified in our *2006 Annual Report* as allowing certain questionable transactions. As of mid-2007, the finance department of that board began reviewing all purchasing-card statements on a monthly basis. When it finds exceptions to policy, it informs the principal or manager responsible for the employee of the reason for rejecting the expense and requests resolution. The memo is copied to the Director of Education and the Executive Superintendent of Business, and is maintained in a file that is provided to the board's external auditors at year end. As well, for all transactions greater than \$500, the finance department re-sends the statement to the employee's supervisor for specific additional approval.

Recommendation 7

At the time of our original audit, one board had approximately 3,200 purchasing cards outstanding. As of the time of this year's follow-up, Internal Audit Services found that the board still had about 1,000 cards which, because they had little or no activity, should be investigated to determine if they need to be maintained. In this regard, at the time of the follow-up, the board had obtained activity reports from the bank and was in the process of contacting card holders to see if the cards were still needed.

At the time of this year's follow-up, another board had approximately 820 cards issued. Internal Audit Services found that 152 of these cards had been used to purchase \$50 or less in one year. The school board was aware of the low card usage for these cards and had plans to cancel all inactive cards soon.