



## PURCHASING AUDIT

AUDIT # 21-02

15 JUNE, 2021

### Report Distribution:

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# Internal Audit

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## EXECUTIVE SUMMARY

### AUDIT OBJECTIVE

The objective of the audit was to evaluate compliance with the District's purchasing policies and applicable external requirements. The scope of the audit included the period from the fiscal year 2019 through the fiscal year 2020.

### AUDIT RECOMMENDATIONS

Recommendation	Risk Level	Implementation Date
1. Strengthen Process for Reporting Contracts to the Legislative Budget Board	High	December 2021
2. Update Approval Workflow to Facilitate Segregation of Duties	High	December 2021
3. Enhance Vendor Evaluation and Improve Compliance with Texas Education Code	Medium	December 2021
4. Require that Solicitations be Posted on the Electronic State Business Daily Portal	Low	December 2021

Other less significant opportunities for improvement were communicated to management separately.

### DESIGNATED MANAGEMENT

#### Responsible Parties



Melissa Irby, CPA  
Chief Financial Officer



Cindy White, CPPO, CPPB  
Director of Purchasing and Contracts

### CONCLUSION

Implementation of the recommendations outlined in the report will strengthen processes and improve compliance.

## BACKGROUND

Purchasing decisions at Collin College are governed by provisions of the Texas Education Code (TEC) Chapter 44, Subchapter B. According to TEC §44.0312 (a), the Board may, as appropriate, delegate certain purchasing authority to a designated person, representative, or committee. Under Board Policy CF (LOCAL), the Board has delegated to the District President the authority to make budgeted purchases for goods and services with the desire to accept the bid/proposal that represents the best value. The Purchasing Department at the District has sole responsibility and authority for the procurement process within the College's Board policies. The Purchasing Department has invested in multiple applications to streamline the purchasing process. The Ion Wave sourcing and bidding application is utilized for evaluating all competitive solicitations. In contrast, the electronic procurement application developed by Jaggaer is used for managing contracts after execution and for the submission and processing of requisitions and purchase orders.

## PURCHASING CYCLE SUMMARIZED

The steps of the Purchasing Cycle can be summarized as follows:



### REQUIREMENTS DETERMINATION

### PROCUREMENT METHOD DETERMINATION

### VENDOR SELECTION

### CONTRACT FORMATION AND AWARD

### CONTRACT MANAGEMENT

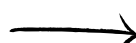
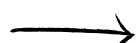
The business need is defined and procurement specifications are established.

The appropriate procurement method is selected and, if applicable, a solicitation is issued.

The vendor that provides best value to the District is fairly and objectively selected.

The formal contract is awarded in line with applicable procurement laws and provisions.

The terms of the contract are enforced.



## METHODOLOGY

To satisfy audit objectives, the following procedures were performed:

- Gained an understanding of the District's purchasing policies and purchasing department procedures.
- Gained an overview of the process for posting purchasing solicitations and evaluating vendors.
- Reviewed purchases to confirm Board approval.
- Validated that the budget notification configuration was set up on contracts.
- Reviewed the purchase approval workflow for segregation of duties.
- Evaluated compliance with contract reporting requirements mandated by Article IX, Section 7.04 of the General Appropriations Act.
- Performed data analysis procedures to compute the average number of responses that are received on competitively bid solicitations.
- Reviewed controls within the bid solicitation and e-procurement applications.
- Selected a sample of purchases to evaluate compliance with District purchasing procedures.

The International Standards for the Professional Practice of Internal Auditing were utilized as guidance for conducting the audit. The Standards are statements of core requirements for the professional practice of internal auditing. Those standards require that sufficient and appropriate evidence is obtained in performing and planning the audit to provide a reasonable basis for the findings and conclusions based on the audit objectives. The evidence obtained provides a reasonable basis for the findings and conclusion based on the audit objectives.

## CONTROLS & STRENGTHS NOTED

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The following controls and strengths were noted as the audit was completed:

- A policy that outlines the District's purchasing requirements is in place.
- Board approval was consistently noted on purchases that required Board approval.
- Contracts were set up to notify the designated Contract Manager when budget spend reached the 85 percent threshold.
- Implementation of the electronic procurement application has allowed for the approval process for purchases to be streamlined.
- A summary of bid tabulations that outlines the scores assigned to each vendor by evaluators is posted publically once the contract is awarded. This allows for greater transparency in the purchasing process.
- District personnel that were set up as users within the e-procurement application were offered training on applicable purchasing requirements by the Purchasing Director.
- An audit trail that detailed that bids are only unsealed after the bid submission deadline has elapsed was in place.
- Documentation was maintained as evidence that the required legal notices for upcoming bid opportunities with the District were published in the county newspaper.



reviewed were approved by the Board. This is based on a review of 196 contracts with total budgeted contract value of \$215.16 million.



reviewed were set up to notify the designated Contract Manager when budget spend reached the 85 % threshold. This is based on a review of 740 contracts.



The average time for issuing purchase orders once requisitions were submitted was two days.

## AUDIT RESULTS & MANAGEMENT RESPONSES

### 1. Strengthen Process for Reporting Contracts to the Legislative Budget Board

Risk Level: High

Category: Compliance, Reputation

**According to the General Appropriations Act, Article IX, Section 7.04 :**

"A state agency or institution of higher education receiving an appropriation under this Act shall report a contract pursuant to this section without regard to source of funds or method of finance associated with the expenditure, including a contract for which only non-appropriated funds will be expended." The requirements mandate reporting of all contracts that exceed fifty thousand dollars to the LBB within 30 days. In addition, contract modifications that exceed 10 percent of the originally reported amount must also be reported. "

In a review of 193 contracts that met the criteria for reporting to the Legislative Budget Board (LBB), it was noted that the:

- Contract values for 155 contracts were accurately reported to the LBB.
- Contract values for 38 contracts were underreported to the LBB by at least \$54 million.

**LBB Reporting Review Results**



The contract values were not accurately reported either due to the designated Purchasing staff member failing to submit the required information or misunderstanding the reporting requirements whenever contract revisions were executed. The District risks negative publicity with continued non-compliance with the LBB's reporting requirements.



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**Recommendation:**

The process for reporting contracts to the LBB should be strengthened so that the required information is submitted accurately.

**Management Response:**

Management agrees to strengthen the reporting process. The Contract Administrator in the Purchasing Department is now running PO reports monthly to catch any purchases that exceed \$50,000 and is also reviewing the entire Board agenda to catch purchase items that went as a committee agenda item and were not included on the Bid Report. All LBB reported contracts have been updated.

**Person Responsible for Implementation:**

Cindy White, Director of Purchasing and Contracts



## 2. Update Approval Workflow to Facilitate Segregation of Duties

Risk Level: High	Category: Governance
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**Security Control Standards Catalog, Control AC-5 states:**

"organizations shall ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity."

The District has implemented an e-procurement application for managing contracts and facilitating purchases. The application offers critical functionality such as the capability for:

- Personnel to create and submit a requisition. A requisition is an internal document that requests the purchasing department to initiate a purchase order.
- Supervisors to review and electronically approve requisitions to authorize the use of funds for purchases.
- Personnel to confirm receipt of an item after delivery.

**Departments where Requisitions were Processed**



- Other - \$ 2,255
- Grounds Maintenance - \$ 243,822
- Physical Plant - \$ 976,286

A total of \$ 1.2 million in requisitions were processed within different departments, where the same individual carried out the tasks of submitting the purchase requisition, providing approval to authorize the use of funds, and providing confirmation that the items were received. This is due to the fact that the approval workflow is not configured to route requisitions to the next individual in the organization hierarchy if requisitions are submitted and approved by the same individual. Inadequate segregation of duties may allow individuals the opportunity to misuse the District's fiscal resources.



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**Recommendation:**

The approval workflow should be updated to facilitate the segregation of duties on purchase requisitions.

**Management Response:**

While requisitions under \$15,000 do not go to a next-level supervisor for approval, they are reviewed by two individuals in the Purchasing Department, unless they are being purchased through a punch-out or catalog supplier and the dollar amount is under \$5,000. However, Purchasing does not approve or review receivers.

Management agrees to revise the workflow for those individuals who do not have a Division Secretary to have their direct supervisor approve the requisition or have another individual submit the requisition for their approval and create the receiver. The workflow in Workday will be set to not allow an individual who submits a requisition to also approve the requisition.

**Person Responsible for Implementation:**

Cindy White, Director of Purchasing and Contracts

### 3. Enhance Vendor Evaluation and Improve Compliance with Texas Education Code

Risk Level: Medium

Category: Governance / Compliance

Texas Education Code, Subchapter B, Section 44.0351 states that:

" A school district shall award a competitively bid contract at the bid amount to the bidder offering the best value for the district. "

In a review of 21 solicitations with a budgeted contract value of \$ 10.28 million, it was noted that:

- On 1 solicitation with a budgeted contract value of \$400,000, there was a large variance in the scores assigned by the evaluators for the reference check evaluation factor. Scores of 15, 6, 6, and 8 were assigned. This gives the impression that the evaluators did not ask the same questions when

performing the reference check. The same script or format of questions must be used when conducting reference checks so that the results are consistent and fair to all respondents. Currently, there is no documented reference form that details the questions that the evaluators posed.

- On 1 solicitation with a budgeted contract value of \$185,000, 3 of the 4 evaluators did not assign the highest scores for pricing to the vendor with the lowest cost. No comments were identified to support the assigned lower scores.
- 1 solicitation with a budgeted contract value of \$242,258, for purchase of colocation and internet services, did not follow the standard procurement process where prospective vendors had the opportunity to submit a bid. No sole source exemption was claimed on the contract.
- Lastly, sole source documentation was not consistently maintained. According to the Purchasing Procedures Manual, " Sole Source documentation must be current and may not be more than 12 months old."

The District risks non-compliance with requirements of the Texas Education Code Subchapter B, Section 44.035 if vendor evaluations and documentation retention is not improved.

**Recommendation:**

Vendor evaluations should be enhanced by:

- Requiring solicitation evaluators to document the results of vendor reference checks on a standardized reference check form.
- Implementing a documented review process so that scoring discrepancies can be identified and addressed prior to execution of the contract.

Additionally, compliance with requirements of Texas Education should be improved:

- For solicitations, where a sole-source exemption cannot be claimed, the standard business practice that allows competitive bidding by prospective vendors should be followed.
- When a sole source exemption is claimed, the contract should not be executed before the required sole-source documentation is in place.

**Management Response:**

Management agrees to:

- Share a standard reference check form with all staff involved in the evaluation process and update procedures to require the use of the reference form.
- Create a ratings key to assist evaluators in determining their scores. Since the implementation of the evaluation tool in Ion Wave, the scoring for pricing has been set as a "Buyer Only" entered field and a formula is used for scoring the prices.
- For solicitations, where a sole-source exemption cannot be claimed, the standard business practice that allows competitive bidding by prospective vendors will be followed.
- Review sole source purchases to ensure the required documentation has been completed prior to processing the order or submission for Board approval. In Workday, the sole source justification will be a required field for all requisitions that are created as a Sole Source requisition type.

**Person Responsible for Implementation:**

Cindy White, Director of Purchasing and Contracts

#### 4. Require that Solicitations be Posted on the Electronic State Business Daily Portal

**Risk Level: Low** Category: Cost Savings

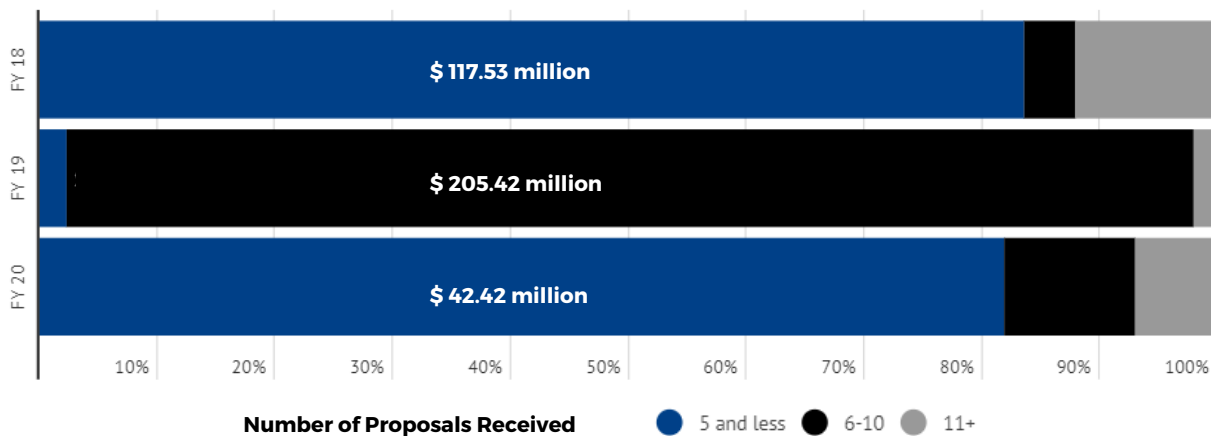
**Texas Education Code, Subchapter B, Section 44.0351 states that:**

" A school district shall award a competitively bid contract at the bid amount to the bidder offering the best value for the district. "

The District provides a means for prospective vendors to register electronically to receive notifications of bid opportunities via email, based on the commodity codes selected by the vendor during registration. In addition, the District posts the required legal notices in the county newspaper to share information about upcoming bid opportunities. However, in an analysis of the number of proposals that were received during the past

three fiscal years, it was noted that approximately \$164.87 million (40.41 %) was authorized for contracting based on the submission of five or less proposals.

**Contract Budgets and the Number of Proposals Received**



Since it is optional for junior college districts to utilize the Electronic State Business (EBSB) portal, the District currently does not post solicitations on the EBSB portal. State agencies utilize the portal to inform vendors about upcoming bid opportunities. The District may derive improved best value as a result of greater competition between vendors by posting bid opportunities on the EBSB portal.



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**Recommendation:**

The practice of posting solicitations on the Electronic State Business Daily Portal should be adopted as a standard business practice.

**Management Response:**

The Purchasing Department will review the added practice of posting solicitations to the Electronic State Business Daily (ESBD) to determine the amount of time that will be required by the Buyers to add this step and evaluate the number of suppliers responding to solicitations who indicate that they received the information from the ESBD.

**Person Responsible for Implementation:**

Cindy White, Director of Purchasing and Contracts

## PRIORITY FINDINGS AND RISK MATRIX

### Definitions of Risks

Risk Level	Definition
<b>Priority</b>	High probability of occurrence that would significantly impact Collin College. If not addressed in a timely way, could directly impact achievement of a strategic or important operational objective of Collin as a whole.
<b>High</b>	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to the college's operations. Without appropriate controls, the risk will happen on a consistent basis.
<b>Medium</b>	The risks are considered to be undesirable and could moderately expose the college. Without appropriate controls, the risk will occur some of the time.
<b>Low</b>	Low probability of various risk factors occurring. Even with no controls, the exposure to the college will be minimal.

## AUDIT OBSERVATION CATEGORIES

- Compliance
- Cost Savings
- Financial Reporting
- Governance
- Information Technology / Security
- Operations
- Reputation



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## THANK YOU

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I appreciate the courtesies and considerations extended to me during the engagement.

Please let me know if you have questions or comments regarding this audit.

A handwritten signature in black ink that reads 'Ali Subhani'.

Ali Subhani, CIA, CISA, GSNA  
Director Internal Audit