

Internal Audit Communication



Roman Gray, CIA, CFE
Internal Auditor – Legal Department,
Rockford Public Schools District #205
501 7th St., Rockford, Illinois 61104
(815) 489-0539
Roman.Gray@rps205.com

TO: Lori Hoadley, General Counsel
Michelle Jahr, Chief Financial Officer
Dane Youngblood, Director of Purchasing

Cc: Ehren Jarrett, Superintendent

FROM: Roman Gray, Internal Auditor

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SUBJECT: Internal Review – Purchasing Consortiums and Related Guidelines

This report addresses a control weakness discovered regarding purchases made through purchasing consortiums. By addressing this issue, the District will be able to reduce the risk of inappropriate activity for purchases made through cooperative purchasing contracts.

As part of an audit that is currently in process, Internal Audit has conducted a review of some District transactions carried out through the use of cooperative purchasing contracts, otherwise known as “purchasing consortiums”. Due to the nature of these transactions, and the manner in which they are conducted, the risk exists that vendors could claim to offer “consortium contract pricing” and engage in business with the District that would otherwise require the use of the bidding process, yet not provide the District with appropriate pricing. After the audit has been completed, findings will be reported and specific recommendations may result. However, as a result of this preliminary review, it is recommended that the District’s Administrative Regulation 4.60R be updated to improve the framework of control over these types of purchases.

OVERVIEW

The District’s purchasing guidelines ([Board Policy 4.60](#) and in [Administrative Regulation 4.60R](#)) establish competitive bidding or price quote requirements based on certain dollar thresholds. These guidelines must be adhered to, except that point #11 of Administrative Regulation 4.60R relieves the bidding requirement for joint purchases made in compliance with the Governmental Joint Purchasing Act (30 ILCS 525/0.01).

The bidding process is an important competitive pricing tool for a governmental entity. It is used to lower the risk of inappropriate activity due to favoritism, price gouging, lack of competition, or other pricing or product inefficiencies.

“Joint purchases” are those made through a purchasing consortium (or “cooperative”) where an acceptable bidding process has been performed, a bid or contract pricing has been awarded in concert with a purchasing consortium, and vendors are able join the consortium and sell the products or services at the contracted prices. To ensure that a vendor’s claim of “consortium pricing” does not give *carte*

blanche freedom to circumvent bidding requirements, there should be a method for verifying the accuracy and legitimacy of prices and contracts.

During this review, Internal Audit found a June 2015 email from a former Executive Director of Budget and Purchasing stating that the District was in the process of finalizing the approvals of the use of certain purchasing consortiums. Internal Audit was only able to find one Board resolution authorizing one of the consortiums listed; however, several of those consortiums have been used for purchasing since the date of that email.

Internal Audit recommends that District Finance and Purchasing should determine which purchasing consortiums should be used by the District, and if they have not yet been properly approved, Board approval should be sought. The further recommendations in this report for establishing proper internal controls should be applied to each of them at that time.

SUMMARY

Board Approval for Consortium Participation:

We found during this initial review that it is generally understood by some administrators that Board approval is required prior to participation by the District in a purchasing consortium. It also stands to reason that official participation in a consortium would be established by a contract, and that contract would need to be submitted to the Board for approval.* However, there is no specific language in either Board policy or Administrative Regulations that states that Board approval is required in order for the District to participate.

**1 It must be noted that we found that not all consortiums adhere to a stringent contract process with prospective participants. Some have a simple web form where the participating entity's contact information is entered, a "check box" is checked, stating that "I agree" with a body of contract information, and participation is established.*

Price and Vendor Verification for Consortium Purchases:

There are no established District guidelines or practices for ensuring the appropriateness of product prices offered to the District by vendors under consortium agreements. At this time, Internal Audit has spoken with representatives from three purchasing consortiums: TIPS-USA, US Communities, and NCPA. Each of them has different recommendations for verifying that vendor pricing is in agreement with contract prices, which indicates that there is no established industry method for doing this.

It is possible that vendors could inappropriately claim to be participants in a consortium in order to win business, and it was also found that vendors that legitimately participate in multiple consortiums could legitimately charge the highest contract prices available to them when charging their customers.

Recommendation:

Language should be added to Board Administrative Regulation 4.60R, to codify (or clarify) the following:

1. Board approval is required prior to purchasing from a vendor based on consortium participation, when citing Administrative Regulation 4.60R, #11 to suspend bidding requirements.
2. A consortium's bidding policies and practices must be reviewed and approved by legal counsel and the Director of Purchasing for acceptability in order for the Board to grant approval.

3. All requests to the Board for approval to participate in a consortium must be accompanied by an explanation of the process to be used for verifying contract prices for all purchases made through that consortium.
4. The Director of Purchasing should maintain a current list of all Board-approved purchasing consortiums, the required method for verifying contract pricing, and any product or purchasing restrictions.
5. All purchase orders that reference a consortium or cooperative purchasing contract should include the following in order to be approved through the PO approval process:
 - a. The name of the consortium or cooperative.
 - b. The name of the entity that participates in the consortium or cooperative. All reseller and manufacturer relationships should be disclosed. *(This is because some vendors are reselling products that are manufactured and priced by consortium participants that do not sell directly to end-users; the reseller may not be a participant in the consortium.)*
 - c. The consortium contract number.
 - d. Detailed pricing information, including end-user contracts from manufacturers whose products are sold by resellers.
 - e. Documentation that all prices were verified as accurate and appropriate as invoiced.
6. When the same items are present under contracts with multiple consortiums with which a vendor is a participant, the District employee that functions as the “process owner” for these transactions shall be responsible to verify with their vendors that the District is being given the lowest pricing available.

Management’s Response:

The Administrative Regulation 4.60R did not require board approval in June 2015 when the former Executive Director of Budget and Purchasing authorized the use of these consortiums. The Purchasing department has since evaluated each of these consortiums and has created a list of both consortiums and the specific contracts currently being used by the District. This resource will be continuously updated with current, valid contract information and will be posted to the Purchasing intranet site. Requisitions that reference consortium pricing are now required to include the name of the consortium and contract number as well as a quote with verified consortium pricing. If language is added to Administrative Regulation 4.60R requiring Board approval for consortium participation the Purchasing department will prepare Board recommendations for them.

