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Missouri State Auditor

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ELEMENTARY AND SECONDARY EDUCATION

School District Purchasing Practices



Opportunities exist to improve school district purchasing and procurement practices

Missouri's 524 public school districts spend approximately \$2 billion annually on goods and services that can be competitively bid. We focused audit objectives on (1) determining whether school districts have maximized competitive procurement opportunities, (2) barriers that impact bidding opportunities and results, and (3) identifying potential improvements to purchasing practices. To accomplish our objectives we visited a sample of 15 school districts based on their student enrollment and location in the state.

Districts did not always use an adequate competitive selection process

Ten of the 15 districts visited did not competitively select at least one professional service contract we reviewed. For other goods, inconsistent district procurement procedures existed. State law requires construction expenditures exceeding \$15,000 to be competitively bid and, with the exception of insurance, architectural and banking services, is silent regarding all other purchases of goods and services at the school district level. (See page 5)

Procurement guidelines have not been established at the state level

The state has not established any type of procurement guidelines to help school districts regarding procurement policies. Other states, such as Texas, Florida and Arkansas, have implemented or are implementing legislation intended to increase the fiscal accountability of school districts. These states have established financial management "best practices," which include guidelines on procurement. (See page 6)

Access to electronic bid solicitation system could benefit schools

North Carolina and Louisiana have established Internet-based electronic bid solicitation systems for state agency use which allow government entity purchasers, including school districts, to access vendors across the state.

Missouri maintains a purchasing system that notifies vendors of potential state agency requests for bids. However, this system is not Internet-based and can only be accessed by state agencies. A Division of Purchasing official stated this system is in the process of being updated, but no plans had been made to make it available for use by other government entities. (See page 6)

Procurement procedure improvements could enhance accountability and reduce expenditures

We observed situations where the competitive selection process and other procedures have been inadequate or could be improved. Districts had not (1) developed formalized procurement policies, (2) maintained adequate documentation of the procurement process, (3) fully taken advantage of cooperative purchasing opportunities, (4) taken advantage of electronic ordering and approval systems, (5) coordinated school supply orders across the district to maximize purchasing power, and (6) always considered state purchasing resources. (See page 7)

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Abbreviations

DESE	Department of Elementary and Secondary Education
GFOA	Government Finance Officer's Association
MCHCP	Missouri Consolidated Health Care Plan
RSMo	Missouri Revised Statutes



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Honorable Matt Blunt, Governor
and
Members of the General Assembly
and
School District Boards
and
Michael Keathley, Commissioner
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and
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Missouri public school districts spend approximately \$2 billion annually on goods and services that can be competitively bid. We focused audit objectives on (1) determining whether school districts have maximized competitive procurement opportunities, (2) barriers that impact bidding opportunities and results, and (3) identifying potential improvements to purchasing practices.

Districts visited did not always use an adequate competitive selection process. Districts did not competitively select some professional service contracts, and did not establish consistent procedures for selection of other goods. This condition occurred because current state law does not require districts to competitively select most purchases and because no procurement "best practice" guidance has been established at the state level. In addition, schools do not have access to an electronic bid solicitation system to assist them in reaching more vendors. While the districts visited had implemented informal procurement procedures most had not formalized all procedures into board policy. Districts could further improve procurement practices by maintaining adequate procurement documentation, taking advantage of cooperative opportunities, utilizing vendor electronic ordering and approval systems, coordinating and consolidating supply orders, and utilizing state resources such as state contracts.

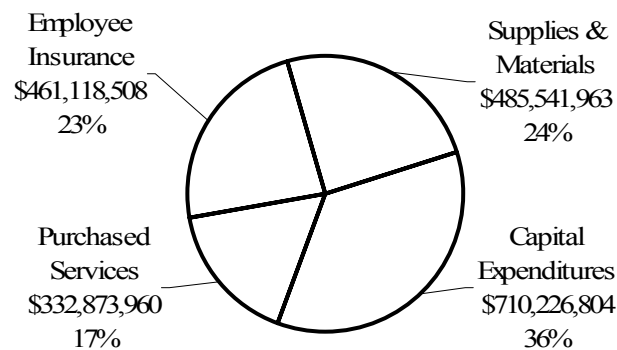
We conducted our audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. This report was prepared under the direction of John Blattel. Key contributors to this report include Jon Halwes, Robert Showers, Jennifer Nunez, and Steven Ward.

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State Auditor

Introduction

Missouri's 524 public school districts spend approximately \$2 billion annually on the purchase of biddable goods and services, according to Department of Elementary and Secondary Education (DESE) data. See Figure 1.1 for a breakdown of those expenditures. Schools purchase such goods as paper, teacher supplies, and school buses on an ongoing basis. Schools must also make capital expenditures to maintain and improve existing facilities as well as to build new facilities. In addition, school districts must purchase professional and operations related services and insurance. Schools also purchase health and workers' compensation insurance coverage for employees.

Figure 1.1: Average School District Purchases by Type, School Year 2003 to 2005



Source: DESE - Annual School Board Report data 2003, 2004 and 2005 school years

Current procurement statutes

The most significant procurement statute relevant to school districts is section 177.086, RSMo, which requires school district officials to competitively select, through public advertisement for bids, construction expenditures of \$15,000 or higher. The statute requires the contract be awarded to the lowest and best bid, complying with the terms of the request for proposal.

Section 67.150, RSMo, requires political subdivisions, including school districts, to competitively bid at least every 3 years health and life insurance, if provided to employees. Section 376.696, RSMo, requires political subdivisions to bid all other insurance at least every 6 years.

Section 8.285, RSMo, requires political subdivisions, including school districts, to select architectural services "on the basis of demonstrated competence and qualifications for the type of services required and at fair and reasonable prices."

Section 165.201, RSMo, requires school districts to obtain bids from banking institutions for deposit of operating funding.

Scope and Methodology

We reviewed state law to determine what procurement requirements applied to school districts. We also researched school district procurement requirements in various states including the eight states bordering Missouri and spoke with representatives of those states to better understand identified laws and procedures. We reviewed work performed by other auditors on the topic. We also reviewed two sources of guidance on public entity procurement and cite these sources in the report where appropriate.

To gain an understanding of the procurement procedures currently in use at school districts in Missouri, we selected a sample of districts to visit. To ensure we selected districts that had recent major projects, we randomly selected 20 school districts from a list of districts that had issued bonds in the previous 2 years. We randomly selected an additional 15 districts from a statewide listing of school districts. From this list of 35 districts, we selected 15 districts to visit based on size and location. See Appendix I for the list of districts visited.

During our visits we asked questions to determine the procurement procedures in place. We specifically inquired about purchases such as school buses, general supplies, teacher supplies, copiers, furniture, computers, and professional services for items such as audits, financial advice, bond underwriting, and architectural work. We obtained supporting documentation whenever possible. We also specifically inquired about the use of any cooperative purchasing opportunities and state purchasing resources.

We obtained Annual School Board Report data from the DESE to identify the total amount expended by Missouri school districts on purchases of goods and services for the three school years 2002-2003 through 2004-2005. We reviewed the department's accounting manual to determine which expenditure codes best represented purchases that could be competitively bid. This data is presented in Figure 1.1.

We talked with officials from the DESE; the Office of Administration, Division of Purchasing and Materials Management; the Missouri Consolidated Health Care Plan (MCHCP); the Missouri Association of School Business Officials; the Missouri School Boards' Association, and the Missouri Association of Rural Educators regarding school district procurement issues. We also interviewed various education related cooperative purchasing organization representatives throughout the state to gain an understanding of the availability of goods and the costs and benefits of these organizations.

We requested comments on a draft of our report from the Commissioners of the DESE and the Office of Administration and the school districts visited. We conducted our work between October 2005 and March 2006.

Opportunities Exist to Improve School District Purchasing and Procurement Practices

School districts have not fully utilized a competitive process for the procurement of goods and services. The majority of districts visited did not competitively select some professional services, and did not demonstrate consistency in how and when they solicited bids for goods. This situation has occurred because current state law does not require districts to competitively select most purchases, leaving it up to each district to decide how best to procure necessary goods and services. In addition, schools do not have access to an electronic bid solicitation system, making it difficult for many districts to obtain a sufficient number of proposals for goods and services. We also observed situations where school's procurement documentation or procedures were inadequate.

Districts Did Not Always Use an Adequate Competitive Selection Process

Ten of the 15 districts visited did not competitively select at least one professional service contract we reviewed. Professional services include items such as auditing, bond underwriting, architectural and food services. At one district visited, bids for auditing services had not been requested for at least 14 years. In addition, 10 districts visited had not solicited proposals for financial advice or bond underwriting services.

Guidance issued by the Government Finance Officer's Association (GFOA)¹ recommends the use of a competitive sealed proposal process when awarding service contracts where cost is not the sole selection factor. When using a competitive sealed proposal process, "the award is made to the proposal that is most advantageous to the government considering price and the other evaluation criteria."

For other goods, inconsistent district procurement procedures existed. For example districts used a combination of verbal bids, request-for-proposal sealed bids, advertised bids and select vendor requests. Only two districts visited had formally established a dollar value for purchases requiring a bid, but those thresholds varied from \$100 to \$5,000 and had been inconsistently applied. Some other districts had established informal bidding levels discussed further on page 8.

State law does not require competitive selection of most goods and services

State law requires construction expenditures exceeding \$15,000 to be competitively bid and, with the exception of insurance, architectural and banking services, is silent regarding all other purchases of goods and services at the school district level. Each school district is allowed to establish and implement its own procurement policies and procedures.

¹ Government Finance Officer's Association, *An Elected Official's Guide to Procurement*, 1995.

According to guidance published by the GFOA, only a fully competitive procurement process can meet all of the objectives of a government procurement system, which are integrity, efficiency, and achieving the lowest possible overall cost. The guidance states an increase in the number of bids received increases the likelihood of lower purchasing costs, likewise, with an increase in the number of proposals received for services, the more likely the entity is to receive a quality service at a lower price.

Five states bordering Missouri have procurement laws which require school district purchases over a certain dollar threshold to be competitively bid. Tennessee law, for example, requires public competitive bidding for every purchase over \$5,000 and three competitive bids when possible for any purchases under \$5,000. Similarly, several Missouri state statutes require other public entities to competitively bid for goods and services. Section 177.171, RSMo, requires "metropolitan" school districts, which only applies to the city of St. Louis public school district per statute, to bid any supplies that cumulate to more than \$5,000. In addition, Section 50.660, RSMo, requires competitive bid for county government purchases of goods and services which exceed \$4,500.

Procurement guidelines have not been established at the state level

The state has not established any type of procurement guidelines to help school districts regarding procurement policies. Other states, such as Texas, Florida and Arkansas, have implemented or are implementing legislation intended to increase the fiscal accountability of school districts. These states have established financial management "best practices," which include guidelines on procurement. According to an Arkansas education official, this legislation resulted from demands for increased accountability due to increased education funding.

Access to Electronic Bid Solicitation System Could Benefit Schools

School districts advertise and obtain vendor proposals and bids individually without the benefit of an electronic bid solicitation system. We found districts use local newspapers, self-developed vendor lists and referrals from other districts to locate vendors that may be interested in submitting a bid. During our district visits, we observed numerous situations where districts were not able to obtain a sufficient number of bids, especially in rural areas. According to GFOA guidance, the more bids solicited on a given purchase, the lower the purchase price is likely to be.

In order to help governmental units reach more vendors and achieve increased competition, guidance issued by National Association of State

Procurement Officials² discusses the use of electronic bid solicitation tools. Some states have implemented such Internet-based systems with positive results. The systems in place in North Carolina and Louisiana, for example, allow vendors to self-enroll on a state vendor list. Vendors are notified electronically of requests for bid in their areas of business. North Carolina's system currently has over 100,000 vendors registered. A government entity seeking bids posts its bid specifications electronically. Vendors then respond directly to the entity requesting the bids by mail and a sealed bid selection process takes place.

The North Carolina and Louisiana systems allow government entity purchasers, including school districts, community colleges, cities and counties, to access vendors across the state and help ensure adequate competition for goods and services purchased. According to discussions with purchasing officials in North Carolina and Louisiana, their systems require minimal upfront and ongoing maintenance costs. These officials also said such systems can result in cost savings for government entities through reduced advertising and postage expense.

Missouri's Office of Administration, Division of Purchasing and Materials Management, maintains a purchasing system that notifies vendors of potential state agency requests for bids. However, this system is not Internet-based and can only be accessed by state agencies. A Division of Purchasing official stated this system is in the process of being updated, but no plans had been made to make it available for use by other government entities.

Procurement Procedure Improvements Could Enhance Accountability and Reduce Expenditures

While all of the districts visited used a competitive selection process for many goods and services they purchased, we observed situations where the competitive selection process and other procedures have been inadequate or could be improved. Districts had not (1) developed formalized procurement policies, (2) maintained adequate documentation of the procurement process, (3) fully taken advantage of cooperative purchasing opportunities, (4) taken advantage of electronic ordering and approval systems, (5) coordinated school supply orders across the district to maximize purchasing power, and (6) always considered state purchasing resources. Districts have been successful in evaluating health coverage options.

² National Association of State Procurement Officials, *State and Local Government Purchasing Principles and Practices*, 2001.

Districts lack formalized procurement policy and did not always maintain adequate bid documentation

Thirteen of the 15 districts visited did not have procurement procedures formalized as part of school board policies except for what is required by state law. While these districts had established procedures, such as obtaining written quotes when the purchase amount exceeded a certain limit, these procedures had not been documented in policy. GFOA guidance states one of the essential elements of a procurement system is "clear written procedures available to the public." According to officials at the districts we visited, school boards have not included specific procurement procedures into policy because state laws do not require any procedures be followed.

Five of the 15 districts visited could not provide adequate bid documentation of all sampled purchases of goods or services. Adequate documentation includes all documentation of bids or proposals received and documentation of the decision-making process resulting in the selection of the vendor chosen. This condition has also been noted in prior audits of other school districts conducted by the State Auditor's Office.

According to GFOA guidance, "all steps in the procurement cycle should be recorded in writing."

Districts have not taken full advantage of cooperative purchasing opportunities

Five of the 15 districts visited did not participate in cooperative purchasing opportunities and two others only took part in health insurance cooperatives. Various cooperative purchasing opportunities exist for school districts. We observed several districts that took advantage of memberships in organized cooperative purchasing not-for-profit entities. We also found several districts had taken advantage of informal cooperative opportunities with surrounding districts. For example, one district obtained some supplies through an arrangement with a nearby larger district that sold supplies to smaller districts out of its warehouse at cost, plus a small administrative fee. In another example, three bordering districts collectively bid trash pickup services.

According to GFOA guidance, such cooperative efforts "can reduce the administrative costs of procurement and can result in lower costs due to economies of scale when placing large orders." Officials at the majority of schools visited said transportation and delivery costs and administrative fees are significant factors to consider when planning a cooperative purchase. For these reasons, two of the rural districts we visited saw more benefit from a local informal cooperative than from an official not-for-profit cooperative. Some officials from those districts that have not taken advantage of any cooperative opportunities could provide no reason for not considering such opportunities while others said they considered cooperative agreements too difficult to coordinate.

Some districts have not taken advantage of natural gas programs

The Missouri School Boards' Association and the Missouri Association of Rural Educators offer programs to districts which use natural gas for their utilities. The programs allow districts to take advantage of reduced natural gas rates made available by Section 393.310, RSMo.³ A Missouri School Boards' Association representative involved in the program estimated schools could achieve natural gas cost savings of 15 to 20 percent. For example, one school district we visited, realized a \$19,000 savings for calendar year 2005. Based on discussions with representatives of both organizations, approximately 70 percent of program eligible districts are participating. Ten of the districts we visited were eligible for the programs. While eight of these districts had enrolled or were in the process of enrolling, two had taken no action. The superintendent of one of these districts indicated awareness of the programs, but had not evaluated them. The superintendent of the other district was not aware of the programs, but said he would look into them.

According to a Missouri School Boards' Association representative and a representative of the program's contractor for the Missouri Association of Rural Educators, there is no reason why a program eligible district should not enroll because cost savings are certain.

Districts have not taken advantage of electronic ordering and approval systems and supply purchases are not coordinated on a district-wide basis

Nearly all (14 of 15) districts visited continue to use labor intensive requisition and purchase order processes for supply orders and have not taken advantage of improvements in technology which allow for more efficient ordering and delivery of goods. A representative for an office and teacher supply vendor told us his company offered a 10 percent discount off catalog prices to any buyer using the company's electronic ordering system. One district we visited took advantage of this discount and achieved a 26 percent savings off catalog prices. According to the district's purchasing manager, the electronic ordering system allows the district to set up electronic supervisor approvals which help reduce the burden of a manual purchase order process. In addition, the use of electronic purchasing can reduce processing time and paperwork and the chance for errors, according to GFOA guidance.

Eight of the 15 districts visited did not coordinate and consolidate teacher supply purchases with a single vendor. Instead, teachers have been allowed to make supply purchases from multiple vendors. For example, in one

³ This statute requires Missouri Public Service Commission regulated natural gas companies to implement tariffs (rates) that allow public and private school districts to aggregate natural gas purchases through third parties. See http://www.msbanet.org/school_services/nat_gas.asp for more information on the savings potential.

district, the elementary school used one supply vendor, the middle school used a different vendor, and the high school used a third vendor. Other districts left it up to each teacher to decide which supplier to use. Superintendents said this practice gave the teachers the option of where to spend their classroom budget. Good business practice suggests consolidating purchases with a single vendor, to the extent possible, maximizes an organizations purchasing power and provides leverage in negotiations.

Districts have not always considered state purchasing resources

Five of the 15 districts visited did not use state purchasing resources and did not consider these resources when making purchases. State purchasing resources include state contracts, surplus property and a public entity health insurance program. Three districts visited had used state contracts to purchase items such as copiers, light bulbs and paper. Three districts had also obtained items such as filing cabinets, desks, and service vehicles from the State Agency for Surplus Property. MCHCP also has a public entity program that can be used by school districts for health insurance coverage. (See more on health insurance coverage below)

Officials in districts not using these resources told us their prior experience using them showed the prices were not always competitive with the local market and had stopped considering them. State purchasing officials also said state contracts are designed with state agencies in mind, and because of transportation costs and other factors, some goods may be purchased at lower prices from a local vendor. For example, we saw that some school districts purchased paper at prices below the state contract price.

MCHCP plan may be a potential option

Officials from districts visited told us they have saved money by actively considering their health insurance options. Section 67.150, RSMo, requires health insurance be competitively bid at least every 3 years. All of the districts visited complied with this statute. While several districts continue to competitively evaluate insurance options internally, other districts have saved money by competitively selecting an insurance broker to help in this process. Other districts saved money by joining a small cooperative with surrounding districts and using the increased purchasing power to competitively select a broker. One of the districts visited had saved money and stabilized health coverage costs by becoming self-insured.

As previously mentioned, MCHCP offers a public entity health plan. A previous audit⁴ showed the MCHCP public entity program was not a cost-effective option for most local governments, however, a MCHCP official said recent program changes could help increase the competitiveness of the premium rates charged.

School officials from the districts visited stated improvements in claims data reporting has allowed districts to more effectively compare prices for this service.

Conclusions

Officials cannot ensure they are receiving the lowest overall cost and the best value on goods and services purchased if they are not competitively bidding purchases. With biddable annual expenditures of approximately \$2 billion, it is in the state's and taxpayers' best interest to ensure school district purchases are selected competitively. Current state law does not require districts to competitively select most purchases and the state has not established "best practice" procurement guidance for school districts.

Access to an electronic bid solicitation system, such as those used in North Carolina and Louisiana, could help schools reduce administrative and purchasing costs and provide access to more vendors.

Written formal procurement policies encourages consistent application of procurement procedures and, along with adequate documentation of the process, increases accountability and results in public confidence that school funding is being spent prudently.

Increased use of cooperative opportunities, when feasible, can increase purchasing power and reduce prices. Consolidating supply orders and utilizing electronic ordering and approval systems, when available, can (1) allow districts to maximize their purchasing power, (2) improve the efficiency of the ordering process, and (3) lead to reduced costs of products.

State purchasing resources, such as state contracts, surplus property and a health insurance program could be beneficial to school districts and other governmental entities. Increased competition in the health insurance industry has given districts more coverage options. Recent changes in the MCHCP public entity health plan may make it a more competitive option in future school health insurance procurement decisions.

⁴ Review of Missouri Consolidated Health Care Plan Management, report number 2004-51, June 2004.

Recommendations

We recommend the General Assembly:

- 2.1 Revise state statutes to require the competitive selection of goods and services at the school district level.
- 2.2 Implement financial management "best practices" legislation to increase the fiscal accountability of the school districts similar to Texas, Florida and Arkansas. This legislation should include guidelines on procurement.

We recommend the Commissioner of the Department of Elementary and Secondary Education:

- 2.3 Establish interim financial management "best practices," for school districts including guidelines on procurement until recommendation 2.2 is accomplished.

We recommend the Commissioner of the Office of Administration:

- 2.4 Consider options in the state's new electronic procurement system that would allow school districts and other local government entities to use the system so they may be able to access an increased number of vendors.

2.5 We recommend school district officials:

- Formalize all procurement procedures established by the district into board policy.
- Maintain all bid documentation, including any bid advertisements, requests for proposals, proposal responses, and documentation of selection criteria.
- Consider utilizing cooperative purchasing opportunities whenever available and consider coordinating with neighboring districts for goods and services when feasible.
- Evaluate the benefit of participating in the natural gas purchasing programs.
- Consolidate supply orders district-wide to increase the purchasing power of the district, and select a supply vendor on a competitive basis.
- Take advantage of electronic ordering and approval opportunities.
- Consider state purchasing options.
- Evaluate all broker and health insurance options, including the MCHCP public entity plan when competitively selecting employee coverage.

Agency Comments

Department of Elementary and Secondary Education Comments

2.3 *The department will take this recommendation under advisement.*

Office of Administration Comments

2.4 *OA will consider this recommendation during its review of the anticipated upgrade and/or replacement of the state's current financial management system (SAMII).*

SAMII is a mainframe system, which makes it physically impossible for school districts to utilize the system. OA is considering an upgrade and/or a system revision to SAMII to make it an internet based system. The capability of an internet based system is unknown at this time. However, an internet based system could potentially allow school districts to access a state procurement system. The type of system you recommend would require the creation of an internet based procurement system as well. The cost of creating an internet based procurement system is unknown at this time.

This issue and many more will be reviewed in the future when OA analyzes the upgrade of SAMII.

Officials from the 15 school districts visited chose not to provide comments to the report.

School Districts Visited

Table I.1 lists the school districts visited, the county location and each district's enrollment.

Table I.1: School Districts Visited

District	County	Enrollment
Aurora R-VIII	Lawrence	2,115
Bernie R-XIII	Stoddard	628
Chadwick R-I	Christian	209
Concordia R-II	Lafayette	539
Dixon R-I	Pulaski	1,065
Fayette R-III	Howard	701
Hallsville R-IV	Boone	1,185
Hannibal 60	Marion	3,632
Hartville R-II	Wright	775
Mexico 59	Audrain	2,393
Miller County R-III	Miller	284
Orchard Farm R-V	St. Charles	1,227
Wellston	St. Louis	606
Wentzville R-IV	St. Charles	8,720
West St. Francois County R-IV	St. Francois	1,038

Source: County and enrollment information from DESE's School Directory.