

FI (5) Work Step

Conduct appropriate investigative steps to test a sample of vendor invoice payments to verify the following:²⁸²

- Contracts were appropriately approved by the Board **(A)**
- Appropriate contracts were executed **(A)**
- Payment was made timely **(B)**
- No duplicate payments (or overpayments) were made to a vendor due to two purchase orders being created for one contract **(C)**

Results of Testing

(A) Conduct appropriate investigative steps to test a sample of vendor invoice payments to verify:

- Contracts were appropriately approved by the Board.
- Appropriate contracts were executed.

Related Allegation

VCA (4) - Board does not approve contracts or approves contracts after they have been entered into Primavera.

Results of Work Performed**Sample Selection**²⁸³

The District provided a disbursement ledger of bond fund activity that covered the 2008/09 through 2014/15 fiscal years.²⁸⁴ From this data, information identifying contracts that had multiple purchase orders attached to the contract was summarized and evaluated. Contracts were selected from this data on a judgmental basis, specifically focusing on those contracts that had a large number of purchase orders. From each contract selected, a sample of disbursement transactions for different purchase order numbers was then chosen.²⁸⁵ For each contract, the

²⁸² The letters included in parentheses after each item in bullets provides reference to the applicable section in the “Results of Testing” section.

²⁸³ This sample selection process is applicable to Work Steps (A) and (B) in this section.

²⁸⁴ The 2008/09 through 2012/13 fiscal year historical transaction data came from the Bi-Tech financial software system that the District previously used. The 2013/14 and 2014/15 fiscal year data came from the Munis financial software system that the District currently uses.

²⁸⁵ A total of 62 disbursement transactions were selected comprising 24 contracts.

District provided supporting documentation for the disbursement, including a copy of the contract executed, a copy of the warrant issued, a copy of the corresponding invoice, and a copy of the payment approval documents.

Analysis

For each contract selected, VLS verified that the contract was appropriately approved/ratified by the Board based on the nature of the contract and the dollar threshold.²⁸⁶ This was verified through a review of the Board meeting minutes. The contract was also reviewed to verify that it was properly executed with the vendor. Contracts requiring Board approval were also reviewed to verify that they were executed after Board approval.

Results

Except for the findings identified below, all contracts selected for testing were appropriately approved/ratified by the Board and the contracts were properly executed with the vendor.

VLS identified a construction contract that was executed before the date authorized by the Board in their ratification of the contract. The Board agenda documenting the approval of the DeAnza High School Main Campus Construction Project contract indicates that “staff will provide a recommendation for award at the meeting” and the “item is being presented prior to the expiration of the 5 working day Bid Protest period” for the Board to authorize staff to issue a Notice of Award effective at the end of the Bid Protest period to the lowest, responsive bidder in order to expedite the project. The results of the bids received and the lowest, responsive, responsible bidder were read to the Board and documented in the 4/14/2010 Board meeting minutes; however, the contract was executed on 4/15/2010, which was less than five days after the bid open date of 4/13/2010 (refer to **Exhibit FI5-01** for copies of the Board agenda and executed agreement). Therefore, the contract appears to have been executed prior to the expiration of the five-day Bid Protest period.²⁸⁷ Refer to Section FI (8) for FI8-1 recommendation for this area.

Two contract copies provided to VLS for review for inspection services for various sites (one to Production Technical Services and one to Kris Gilbert) were unsigned copies.²⁸⁷ The contract amounts agreed to the proposals submitted by the vendors and the amounts included in the Board précis for Board ratification of the awarded contracts.

²⁸⁶ Construction contracts over \$45,000 require informal/formal bidding procedures to be followed and approval of the bid by the Board. Professional service contracts under \$50,000 and construction contracts \$45,000 and under can be approved by delegated authority and ratified by the Board. Professional services contracts \$50,000 and over require Board approval.

²⁸⁷ Refer to recommendations made (TC8-1 and TC8-5) regarding contract approvals and signatures included in the TC (8) Section.

The District was not able to locate contract copies for three of the transactions selected for testing.²⁸⁸ Current District procedures require executed contracts to be electronically stored in the Munis system before invoices can be authorized for payment.

Conclusion

For the sample tested, VLS did not identify contracts being awarded to a vendor prior to Board approval or without being presented to the Board for approval or ratification. VLS did identify one instance in which a contract was executed and awarded by District staff and ratified by the Board prior to the completion of the bid process.

(B) Conduct appropriate investigative steps to test a sample of vendor invoice payments to verify:

- Payment was made timely.

Related Allegations

- VCA (5) - Discrepancies in single contract amounts.
- VCA (9) - There is no mechanism to stop a purchase order, contract, or invoice from being paid if there is no Board approved budget for it.
- PAM (3) - Munis does not have the ability to control payments to contract amounts - multiple purchase orders were written for a single contract and there is no control to prevent this.

Results of Work Performed

Sample Selection

Refer to the “Sample Selection” paragraph in the Work Step (A) section of “Results of Testing.”

Analysis

To determine timeliness of payments, the invoice was reviewed and the date of receipt by District FOC staff was used as a starting point in determining the calculation of days from invoice receipt to warrant date (when payment was issued). In addition, VLS verified the following: payments made were to the vendor indicated on the approved contract and for the approved project; payments were made after the contract was executed; proper District approval was included on the invoice; and payments made did not exceed contract amounts.

²⁸⁸ These were for payments made to: 1) Am Woo Construction for work performed at De Anza High School, 2) AM Woo Construction for work performed at Ellerhorst and Tara Hill Elementary Schools in August 2013, and 3) ERA Construction for work performed for the Gompers Continuation High School in March and August 2011.

Results

All 62 disbursements tested were payments made for a contract after the contract was executed:

- Thirty-eight invoices were paid within 30 days of invoice receipt by the FOC staff.²⁸⁹
- Eighteen were not paid within 30 days of the FOC staff receiving the invoice. The average length of time until the invoice was paid was calculated for these disbursements as 45 days.²⁹⁰ Refer to Table 39 for a listing of the 18 invoices identified that were not paid within 30 days. Refer to section TC (11) for TC11-1, TC11-2, and TC11-3 recommendations related to this area.
- Timeliness of invoice payments could not be assessed for six invoices as the District was not able to locate supporting documentation for these disbursements. For three of the six disbursements, the District was able to provide copies of the invoices from the construction management company (SGI); however, a warrant copy was not provided.

Table 39: List of Warrants Paid After 30 Days of Receipt of Invoice

| Warrant # | Invoice # | Date Received | Date Paid | Days to Payment |
|-----------|-------------------|---------------|-----------|-----------------|
| 00409643 | 1119 | 12/19/08 | 1/22/09 | 34 |
| 00424837 | 276-322204 | 3/4/10 | 4/21/10 | 48 |
| 00446271 | 201109248 | 10/31/11 | 12/14/11 | 44 |
| 00447479 | 201110232 | 12/6/11 | 1/25/12 | 50 |
| 00463724 | 201206096 | 9/17/12 | 4/16/13 | 273 |
| 00406397 | Various (7 total) | 9/8/08 | 10/15/08 | 37 |
| 00406397 | 2591612 | 9/4/08 | 10/15/08 | 41 |
| 00409293 | 10000287 | 12/10/08 | 1/14/09 | 35 |
| 00441481 | ERA-AMWES | 5/4/11 | 7/27/11 | 84 |
| 00460247 | 2012.180.03 | 12/13/12 | 1/15/13 | 33 |
| 00459087 | OCT2012-19 | 11/9/12 | 12/12/12 | 33 |
| 00445178 | ERA-RV PORT21 | 8/20/11 | 11/16/11 | 88 |
| 120828 | DE.48 | 1/23/15 | 3/3/15 | 39 |

²⁸⁹ District procedures require invoices to be paid within 30 days of receiving the invoice at the FOC. Therefore, this standard was used to determine timeliness of payments for samples tested.

²⁹⁰ Two invoices were not factored into the calculation of average days until payment. The payments were made 273 and 228 days after receipt of the invoice and were deemed outliers when compared to the other payments considered untimely. If these two invoices are included in the calculation, the average length of time until payment is 61 days (when including only those invoices that were paid after 30 days). The invoices were payments made in 2012/13 and 2013/14 fiscal years. The supporting documents did not identify the reason for the delay in payment.

| Warrant # | Invoice # | Date Received | Date Paid | Days to Payment |
|-----------|---------------|---------------|-----------|-----------------|
| 113436 | A0348 | 6/19/14 | 8/12/14 | 54 |
| 102393 | AUGUST25.2013 | 9/7/2013 | 10/30/13 | 53 |
| 102393 | AUGUST21.2013 | 8/28/13 | 10/30/13 | 63 |
| 103365 | 251994 | 10/3/13 | 11/18/13 | 46 |
| 105896 | 1613 | 6/21/13 | 2/4/14 | 228 |

The description of work performed as identified on the invoice was consistent with the scope of work identified in the contract and Board approval documentation for all payments tested.²⁹¹

Conclusion

Based on the results of testing, some invoices were paid after 30 calendar days, which does not comply with the District's policy.²⁹² Recommendations have been made in the TC (11) Section related to timely payment of invoices; therefore, no recommendation is included for this work step.

(C) Conduct appropriate investigative steps to test a sample of vendor invoice payments to verify:

- No duplicate payments (or overpayments) were made to a vendor due to two purchase orders being created for one contract.

Related Allegations

- VCA (5) - Discrepancies in single contract amounts.
- VCA (9) - There is no mechanism to stop a purchase order, contract, or invoice from being paid if there is no Board approved budget for it.
- PAM (3) - Munis does not have the ability to control payments to contract amounts - multiple purchase orders were written for a single contract and there is no control to prevent this.

²⁹¹ During testing, VLS identified approval signatures missing from the Payment History/Approval document. Seventeen transactions did not have the approval signatures of the Executive Director of Bond Finance nor the Associate Superintendent of Operations and Bond Program. Thirty-four transactions did not have the approval signature of the Associate Superintendent (not including the 17 previously mentioned). The current approval process includes an electronic approval workflow, and VLS did not perform additional steps to verify electronic approval for these historical transactions as this was not within the scope of this work step. Refer to recommendations identified in the TC (11) Section related to approval signatures.

²⁹² Through the electronic document review process, VLS identified e-mails from vendors to the District or the construction management company (SGI) inquiring on the status of past due invoices.

Results of Work Performed

Sample Selection

Fifteen contracts were selected from the 2008/09 through 2012/13 fiscal years that had multiple purchase orders issued for the same contract. For each contract, a sample of disbursements charged to different purchase orders was selected to determine if payments made for different purchase orders were duplicate payments.²⁹³

In addition, VLS selected a sample of 30 contracts awarded prior to the 2013/14 fiscal year to review expenditures incurred in comparison to the contract award amount (plus add-services or change orders).^{294,295} Of these 30 contracts, 12 had multiple purchase orders created.²⁹⁶

Analysis

To determine that duplicate invoices were not paid as a result of multiple purchase orders issued on the same contract, the description of work performed according to invoice documents reviewed was compared across all payments tested for the same contract number to verify that they were payments for different time periods and/or aspects of a project.²⁹⁷ In addition, the general ledger disbursement detail was reviewed to verify that invoice numbers and payment amounts were not repeated.²⁹⁸

For 30 contracts awarded prior to the 2013/14 fiscal year, VLS compared the total payments made under the contract (from the Bi-Tech and Munis historical disbursement data) to the total approved contract amount (from the Board award and ratification documents) to determine if payments exceeded the approved contract amount. Contracts identified as having excess

²⁹³ The sample of payments selected for testing was from the payments reviewed in Work Step (A) of the FI (5) Section. Refer to the “Sample Selection” section for additional information.

²⁹⁴ Contracts awarded in the 2013/14 fiscal year and after were accounted for completely in the Munis system where multiple purchase orders are not assigned to a contract. Refer to the “Results” paragraph in this Work Step.

²⁹⁵ The sample of contracts tested was from the same sample of contracts reviewed in Work Step (A) of the FI (5) and FI (8) Results Summaries. Refer to the “Sample Selection” section of each respective FI Section for additional information.

²⁹⁶ VLS included contracts that did not have multiple purchase orders issued for this analysis to determine if instances of overpayments identified were isolated to contracts with multiple purchase orders.

²⁹⁷ Multiple purchase orders were issued for a single contract when the District was using BiTech. Refer to the Results section of Work Step (C) for information related to this.

²⁹⁸ There were instances in which invoice numbers for the same amounts were paid with one warrant. However, in testing a few of these and reviewing the account string, these instances were related to payments of the same service for multiple sites (such as inspection services). Therefore, the full invoice amount was allocated equally to different sites; however, the invoice was paid only once.

payments were reviewed to determine if these were limited to contracts subject to the issuance of multiple purchase orders.²⁹⁹

Results

Based on the sample of contracts reviewed, when multiple purchase orders were issued for one contract, each purchase order was for a different service within the one contract (such as furniture purchases for different buildings, data network services for different sites, different architectural services, etc.). When there were multiple invoice numbers for the same period, the invoices appeared to be for expenses associated with multiple sites. Based on a review of general ledger data, it appears that multiple purchase orders assigned to one contract was specific to the previous financial software system (Bi-Tech). Per discussion with purchasing department staff, the Bi-Tech software required issuance of new purchase order numbers if a contract rolled over into a new fiscal year.³⁰⁰ In addition, District procedures for the Munis software require contracts to be issued as a purchase order number (not separately), and additions to contracts are administered by change order requests. General ledger reports generated from the new financial system (Munis) corroborate this as they identify only one field for contract/purchase order number.³⁰¹

Of the 30 contracts reviewed, three were identified as having payments exceed the approved contract amounts.³⁰² Multiple purchase orders were issued for all three contracts.³⁰³

Table 40: Table of Contracts

| Vendor | Project | Total Approved Contract Amount | Total Payments | Payments in Excess of Approved Contract Amount | Number of POs |
|------------------------|-------------|--------------------------------|----------------|--|---------------|
| WLC Architects | 11201341-00 | \$ 3,223,330 | \$ 3,270,858 | \$ 47,528 | 2 |
| Baker Vilar Architects | 21001101-00 | 1,082,218 | 1,206,865 | 124,648 | 4 |
| Mobile Modular | 21201102-00 | 114,757 | 409,337 | 294,580 | 10 |

²⁹⁹ Payments were compared to contract amounts awarded through the 2014/15 fiscal year.

³⁰⁰ There is a higher potential of duplicate or over payments when multiple purchase orders are assigned to one contract.

³⁰¹ Current process requires the vendor to identify the contract number (or purchase order number) on the invoice submitted to the District for payment. Invoices that do not specify this number will be rejected for payment.

³⁰² Including approved add-services or change orders.

³⁰³ Due to the historical nature of these three contracts, the District is continuing to review storage records to determine if documents are available to explain these differences.

Conclusion

Three contracts out of 30 tested were identified as having payments exceed approved contract amounts, and all three had multiple purchase orders issued.³⁰⁴ Although multiple purchase orders for single contracts were identified in the Bi-Tech ledger, this was not the case in the Munis ledger. In addition, the disbursement transactions tested where there were multiple purchase orders to one contract were found to be for services consistent with the scope of the contract and Board approval/ratification documentation and not for payment of duplicate invoices or unrelated services. Recommendations were not made related to this work step because the District now requires contracts to be issued as a purchase order number (not separately) in the Munis software.

Recommendations

Refer to recommendation number FI8-1 in the FI (8) Section for a recommendation related to Board approval of contracts.

Refer to the recommendation numbers TC11-1 through TC11-3 in the TC (11) Section for recommendations related to timely payment of invoices.

Response by District

See District responses to recommendations FI8-1 and TC11-1 through TC11-3.

³⁰⁴ Due to the historical nature of these three contracts, the District is continuing to review storage records to determine if documents are available to explain these differences.