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STREAMLINING THE ACCOUNTS PAYABLE
PURCHASE ORDER PROCEDURE
AND APPROVAL PROCESS

by
Alan B. Parmelee

A Master's Thesis

Submitted in partial fulfillment of the requirements of the
Master of Arts Degree in The Graduate School of
Rowan University
May 2000

Approved by _____
Professor

Date Approved May 2000

Abstract

Alan B. Parmelee

Streamlining the Accounts Payable
Purchase Order Procedure and
Approval Process
2000
Dr. Ronald L. Capasso
MA- School Business Administration

The purpose of this study was to develop a uniform method for purchasing materials and equipment for the Sea Isle City Public School District and to bring about a change in the organizational culture that would support those changes in procedure.

The intern utilized open-ended action research and his problem solving skills to analyze the practices currently in use, to research statute and code and for conditions and limitations of public sector purchasing practices and to review other relevant purchasing manuals and procedures. Informal interviews were conducted among staff to gauge the level of their knowledge of purchasing requirements.

As the research progressed, the intern changed the organizational culture of the district through a series of presentations and one-on-one interviews thereby sensitizing members of the staff to the reasons behind the changes in the procedure for purchasing goods and services -- that of compliance with the law.

The resulting procedure provided step-by-step instructions for district purchases which was consistent with purchasing guidelines mandated by the State of New Jersey. The willingness of the staff to change from a past practice that was not controlled attributed to a more efficient, cost-effective purchasing operation for the district.

Mini-Abstract

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My sincere thanks, gratitude, and appreciation go to Ms. Doris Issacs, School Business Administrator in Ocean City Public School District, for being a friend whom I could trust, a role model for me, and being there to answer questions when I needed help.

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I want to also thank the university professors I had during my program, especially Mr. John Knorr, Dr. Lawrence Marcus and Dr. Dennis Hurley who provided me with the background I needed for this study.

To Dr. Ronald Capasso, I want to thank for his patience, understanding and will to work with an intern who has his undergraduate degree in engineering.

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Chapter 1

INTRODUCTION

Focus of the Study

This study was intended to focus on the improvement of procurement practices in the Sea Isle City Public School District and to bring about a change in the organizational culture that would support those changes in procedure.

Demonstrating control over a school district's purchasing process has been one of the most important responsibilities of a School Business Administrator. The lack of control may have meant that public funds were not being spent in a manner consistent with district policy and the public trusts. Likewise, audit recommendations detailed at the conclusion of the district's Comprehensive Annual Financial Report (CAFR) may have also indicated a lack of control over public funds and should also be taken very seriously.

In order to provide assurance that a district's funds were being spent properly, adequate controls needed to be in place. District policies and procedures needed to be detailed enough to provide the guidance necessary in the district's normal financial operation. There also needed to be a willingness of staff members to follow procedures if the program was to succeed.

Purpose of the Study

The purpose of this project was to develop a uniform method for purchasing materials and equipment for the Sea Isle City Public School District. The resulting

procedures provided step-by-step instructions for district purchases that were consistent with purchasing guidelines mandated by the State of New Jersey.

The intern utilized his skills in problem solving and background in budgeting and cost control to analyze the practices currently in use and to make the changes necessary to bring the district into compliance with regulatory agencies. As the research progressed, the intern hoped to change the organizational culture by sensitizing members of the staff to the reasons behind the changes in procedure – that of providing a uniform method for purchasing goods and services that was in compliance with the law.

Definitions

Bid Threshold: The dollar limit established by State Law above which competitive bids were required, subject to the exceptions as outlined by statute. The current bid threshold is \$13,400.00.

Competitive Bids: The process of specifying, bidding, evaluating and awarding of contracts for purchases of goods and services whose value is above the bid threshold.

Competitive Quotes: The process of specifying, soliciting, evaluating and awarding of contracts for purchases of goods and services whose value is above 20% of the bid threshold.

GAAP: Anachronym for Generally Accepted Accounting Principles. GAAP is the standard system of accounts in use by all school districts within the State of New Jersey.

Purchase Order: A legally binding contractual agreement between the school district and a vendor for the provision of goods or services.

Quote Threshold: The dollar limit established by State Law above which competitive quotes are required subject to the exceptions as outlined by statute. The quote threshold is 20% of the bid threshold.

Requisition: A request for the purchase of goods or services.

Specifications: Detailed description of items to be purchased or services to be rendered.

State Contract: An agreement negotiated between the State and a vendor to provide goods or services at a specified price and duration. Purchases made through State Contracts are normally exempt from competitive quotes or bidding requirements.

Vendor: Any company, organization, government entity or individual that provides goods services or does business with the district.

Verification of goods and/or services: Assurance that the goods or services received were as per specifications.

Voucher: An affidavit signed by the vendor attesting to the fact those goods or services that were provided were provided as specified.

Limitations of the Study

Purchase order processing and review cycles varied from district to district. In larger districts where 10,000 purchase orders were processed annually, the Superintendent may have only been involved in those that exceed a certain dollar amount or, as in smaller districts, the Superintendent may have approved of all purchase orders generated. Because of these variations, this study has been limited in scope to one district but the outcome may be adapted to others.

Setting of the Study

The City of Sea Isle City was a relatively small shore community located on a barrier island in the northeast region of Cape May County New Jersey. Tourism was the major industry of the community and as a result, had presented unique challenges for a school district. Abnormally high property valuations had created the perception to State Officials that the district was affluent when in reality, senior citizens and younger families strained to make ends meet.

The district was also unique in that until November of 1998, the Board of Education was organized as a Type I School District with a Board of School Estimate whose members included members of the City Council. Board members were appointed by the Mayor of the City. The District is currently organized as a Type II district having a nine member elected Board, the first members being elected in January of 1999 with two additional members being elected in April of 1999. In April, 1999 the voters of Sea Isle City had their first opportunity to approve the school tax levy. The budget was passed by a narrow margin with two voting districts (primarily senior citizens) voting the budget down.

With the influence of City politics still lingering, the Board of Education had taken a conservative approach to decision making, often times conferring with community leaders beforehand. There was for example, a pre-budget hearing to get input from community members before finalizing the figures to be voted on at the actual hearing, a practice that is not common in southern New Jersey.

Significance of the Study

The significance of this project was that the district did not have a formal purchasing procedure in place. Therefore, there was no written consistent means to provide guidance for staff and administration in the purchase of materials or equipment.

The practice of purchasing supplies and equipment for the district that was not budgeted or without knowing account balances was of concern. In addition to correcting this and similar problems, the intern hoped to use this project as a segway for proceduralizing other functions of the Board office.

Organization of the Study

This study was conducted using open-ended action research as a basis. Chapter 2 focused on the review of literature to determine in part, the direction the study would take. Chapter 3 emphasized the design of the study and a discription of the data collection method and the plan for data analysis. Chapter 4 discussed the research findings – what information was found and what did it mean. Chapter 5 provided conclusions of the study, implications of the study and explore the need for further study.

Chapter 2

REVIEW OF THE LITERATURE

The intended purpose of this project was to enhance the district's purchasing process by revising procedures already in place, creating new where existing procedures are inadequate and changing the organizational culture by fostering an attitude that supported adequate control of district expenditures.

The amount of information available on this topic was limited. However, what was available did describe the detail, the requirements of the process, the limitations of the process and the expected outcome of the process. Since all school districts in New Jersey needed to have purchasing procedures in place, information was also available which described the purchasing process itself.

Several purchasing manuals were reviewed as part of this study. Each described the procurement process as it pertained to the uniqueness of the district for which they were written. Each delineated the responsibilities and authority of the School Business Administrator, the originator of a purchase order, the Chief School Administrator, and the Board of Education. Each manual described how the process was to be implemented in compliance with the statutes and codes.

The legal requirements and limitations of the purchasing process were found in the New Jersey Statutes (N.J.S.A) 18A Education. Chapter 18A-1 et. seq., Public School Contracts Law. The law was designed to provide an overview of the purchasing process and to protect the right of the public to know how funds were being spent. Problem areas of past

practices such as splitting contracts to avoid having to advertise and bid or qualifications of bidders are specifically addressed.

Assembly Bill A-30 – Revisions to the Public School Contracts Law, was reviewed to ascertain the effect the bill would have on existing laws. The bill described changes in both municipal and public education procurement that were designed to minimize the differences between the two.

New Jersey Administrative Code (N.J.A.C.) Title 6 Chapter 20, Business Services, further defined the requirements and limitations of Public School Purchasing. In certain areas such as the purchase of textbooks and competitive bidding, the code was specific about requirements of the board of education. The Code did not however, address procedures for the direct purchase of smaller items on a daily basis.

Policies from the Sea Isle City Board of Education Policy Manual were reviewed with respect to the study. Each gave a broad overview of the Board of Education's expectations in regard to procurement and did, by their approval direct the development and implementation of a purchasing procedure.

The quality assurance and compliance issues that surrounded district purchasing practices could not be ignored if procurement procedures were expected to be totally complete. The NJDOE Division of Finance Audit Program Manual was the primary source for this information for a public school district. Updated on an annual basis, the manual provided up-to-date information to auditors and districts alike relative to the scope of the annual audit. Bids and contracts, purchasing and review of purchase orders were described in detail. Case in point, credit cards used for the direct purchase of goods or services was not

permitted. The guidelines also pointed out for example, that use of blanket purchase orders at any time should be reported by the auditor as a finding and recommendation.

Stephen R. Covey's *The Seven habits of Highly Effective People* was reviewed to gain a management perspective on procurement. Covey described time management as one attribute of an effective manager that crossed almost all organizational structures. Time management was found to be a key element in an effective procurement program.

Finally, philosophical issues and relationships relevant to procurement practices in an educational setting were found and discussed in *School Business Administration -- A Planning Approach*. Described herein were the values placed on a School Business Administrator as a purchasing agent and the role s/he played in establishing the ethical standards of a procurement program. Honesty, and integrity and leading by good example were described as essential elements of a sound program as well as serving as indicators of a program's success or failure.

Chapter 3

DESIGN OF THE STUDY

Description of the Research Design

The approach taken in the research for this thesis as we have said earlier was through open-ended action research. Three things that were known for sure in connection with public sector purchasing were that there was law and code governing the process, that districts were obligated to comply with the law through development of policy and procedures and that compliance with the law was verified through the annual audit. The end result was that if there was assurance that audit guidelines and requirements had been adhered to, then there was reasonable assurance that written district policy and procedures in place satisfied the letter, if not, the intent of the law.

The Audit Program as written by the State of New Jersey, Department of Education, Division of Finance was the basis of comparison for the research for this study as it related to purchasing practices. *The Audit Program* stayed current with changes in the law and code and was updated on an annual basis. District purchasing policy and procedures (both written and past practice) were researched and compared with the appropriate audit checklists. Pending code changes affecting purchasing were reviewed for future incorporation.

The topic chosen for this study was an evolutionary process with major changes taking place over the past ten years. Districts experienced three major changes during this time as educational funding laws and legislation governing public sector purchasing and private sector practices came closer together. One commonality between

public and private sector purchasing was that each was striving to achieve a sound, ethical means toward equity and to assure that there was protection of the law.

The research conducted during this study was focused on three points of interest: review of existing district documentation, review of statute and code governing the control of purchasing and interviews with other professionals in the business.

School districts were required to have policy and procedures in place that governs the purchasing process. Supporting documentation that included files containing open/closed purchase orders and evidence that bidding/quotation procedures were being followed, was also required.

Development and Design of the Research Instruments

The research instrument used as a basis in this study were the appropriate checklists for purchasing practices as found in *The Audit Program*. As the study progressed, it was necessary to modify these checklists to provide additional, specific information from NJ DOE Division of Finance Bulletins or other like sources in order to provide needed information for a purchasing manual.

Data Collection Approach

Interviews with staff members, other School Business Administrators and district administrators were an integral part of this study. It was expected that the information collected from staff and administration during this process was to serve as a background for the purchasing manual, particularly in gauging the reaction and difficulty in making changes in the culture of the district while attempting to make abrupt revisions to the

current procedure. These interviews were conducted on an informal basis, one-on-one or in small groups

Data Analysis Plan.

The key element in the data analysis plan was the ability to establish a benchmark for acceptable purchasing practices and determining the standard. *The Audit Program* provided the standard of what was expected, the New Jersey Administrative Code Title 6 Chapter 20 and New Jersey Statutes Title 18A:18A provided the standard of what was required, and the district's purchasing policy and procedures provided the means to bridge the gap between those requirements and expectations.

Data analysis for this project as mentioned earlier, was open-ended action research where procedures would be revised or written based on the data gathered. Specific requirements of the audit were cross-referenced with the applicable statute and/or codes and directives and compared with current practice and policy. Procedural changes were made in accordance with the above in conjunction with the information gathered during the interview process.

Impact on Current Practice

Dr. Laurence Marcus said it best during one of his lectures on Educational Organization and Leadership at Rowan University when he spoke about cultural change upsetting the dynamic equilibrium of the organization. Introduction of the above research and accountability into an organization where the current practice of "past practice from ten years ago" had been the norm, the change would have had disastrous

results if it was implemented all at once. The change would be unacceptable to almost everyone involved. However, changes needed to take place in the district because based on the research, current practices were unacceptable. This being the case, the plan was to introduce the research to the district one or two elements at a time order to achieve more satisfactory results in reestablishing equilibrium in the organization.

Chapter 4

PRESENTATION OF RESEARCH FINDINGS

The information gathered during this research was a typical representation of purchasing practices and perceptions of those not directly involved in the process. During the discovery process, the following came to light: that school district personnel who were not directly involved in the process continued to use past practices; that laws affecting procurement in the public sector were being reviewed and standardized; that district policy and procedures that put law and code into practice were often too vague or too general to be effective.

Research of Existing Statute and Code

The basis for all public school procurement requirements was found in the New Jersey Statutes (N.J.S.A. 18A:18A) Title 18A, Education, more specifically, Chapter 18A, Public School Contracts Law. The statute established the guidelines for Public School Purchasing. It provided specific rules as an example, for bidding (including bid thresholds), specifications, plans, qualification of bidders and award of contracts; purchases, joint purchasing and the requirement for advertising; insurance issues, and professional agreements.

N.J.S.A. 18A:18A, as we discovered however, does not seem to address the smaller issues that districts face. For example, it was a common practice for a district to solicit quotations for goods services where the estimated cost is below the bid threshold. However, use of quotations in the procurement of goods or services was not mentioned in this law. We have also discovered through the research that N.J.S.A. 18A:18A was not

always consistent with other public sector purchasing laws. For example, the bid threshold for municipal purchasing was somewhat higher than the current limit of \$13,400 for public schools. Also, there were no known limits found for private sector purchasing except those that were self-imposed.

Interviews with Staff and Other School Business Administrators

In practice, the intern found that the adherence to the procurement process as mandated by statute was only as strong as the enforcement to district policy and procedures. Responsibility for enforcing district procurement policy rested with the School Business Administrator who was many times perceived as the “bad guy”.

During each interview with staff members the following question was asked: what was your perception of the procurement process? Almost unanimously, the response was that they did not have any knowledge of the process other than that when they needed something for the classroom, they needed to complete a requisition or that they could purchase the item on their own and expect to be reimbursed for it. When asked how long this practice had been going on usually the response was that it had been going on for as long as they could remember. The same responses came from support staff and secretaries alike.

Coupled with staff member’s perception of the procurement process, during the interviews, when asked, most staff members did not realize that it was their responsibility to check items that were received to assure that what was received was what was ordered. Additionally, most staff members did not care where the funds came from for the items that they ordered.

School Business Administrators in other districts, depending on the organizational culture and their ability and willingness to enforce the rules responded differently to what the current practice was relative to procurement. Case in point, the School Business Administrator in the Ocean City School District came into the district about three years ago facing the same problems that existed in Sea Isle City. Known for her professional, businesslike approach to problem solving, strict enforcement of the rules turned what was once a chaotic situation into a process with the proper administrative control over the purchases made by the district. It wasn't an easy task however, because along with the administrative changes there had to be a dramatic organizational culture change among the staff and administration.

Another case in point, a past School Business Administrator at the Salem County Special Services School District was interviewed and the organizational climate in the district and her ability and willingness to enforce the rules was somewhat different. Her approach to spending was not as strict and was heavily influenced by the will of the Superintendent. Consequently, budgets grew to beyond the district's ability to serve the County with an economical alternate to the high cost of special education and sending districts began implementing their own programs to save dollars in their own budgets.

Other district School Business Administrators interviewed faced similar problems with their staff and administrators. There was the issue of creative financing and the tendency of some administrators to authorize purchases without proper follow up with the business office. For districts with in-place purchasing manuals however, the process tended to run more smoothly because consequences of not following the rules were provided and enforced.

The local district administrators interviewed had a different point of view. They understood the procurement process and there were a lot of questions about what they could and could not do. However, one perception they did have was that they wished that they could circumvent the rules at times to expedite a “special purchase” that would not ordinarily be special. Another perception was that creative financing was an option when projects that were not originally budgeted could become realities.

Purchasing Policy and Procedures

During the research, district board policy and procedures were reviewed to determine adequacy and limits of authority. Examples of other district purchasing manuals and samples from other sources were also reviewed.

Four Board policies which addressed expenditures and purchasing were found in the Sea Isle City Policy Manual. These policies were approved by the Board of Education in April, 1984 and there was no evidence that they had been reviewed since then. The language was standard to the New Jersey School Boards Association Critical Policy Manual. Each of these policies as written, could be used on a general basis but did need to be updated to reflect current thinking, changes in the law and the change from a Type I appointed Board to a Type II elected Board. Although these policies required that procedures be in place for purchasing and spending control, none existed except for past practice.

The samples of other district purchasing manuals reviewed came from the Salem County Special Services School District, Lumberton Township Board of Education and the New Jersey Association of School Business Officials. In each case, the manuals

provided clear definitions of terms used; expectations and responsibilities of originators of requisitions, district building administrators and the business office, and clearly defined flow processes for purchase orders, bid packages, and receiving and inspection. Rules for exceptions such as emergency purchases and problems encountered during the process were also provided. Additionally, the NJASBO sample procedure included penalties for making unauthorized purchases that included loss of increment and loss of employment.

The Audit Program

Most School Business Administrators, Superintendents, Board members and regulators would agree that the annual school district audit was the single most important review of district finances that a district could undergo. The district's financial position and representation is compared in microscopic detail with a standard of conformity that is mandated by statute and code. Lack of control in the area of purchasing could result in audit findings and recommendations and it would be therefore imperative that good practices be adhered to and enforced.

The standard of conformity auditors have used throughout the State is written by the New Jersey Department of Education Division of Finance in compliance with statute and code. It is updated on an annual basis to provide auditors and school districts with the latest information available.

When the Audit Program for 1999 was reviewed in preparation for the District's Comprehensive Annual Financial Report (CAFR) adherence to good purchasing practices was a major component of the overall program. The Audit Checklist summarized the

requirements in detail. Case in point, all purchase orders properly executed would indicate that all purchases must be properly documented: purchase orders must have followed a predetermined routing since its inception; that authorizing signatures were in place; that goods/materials receipt was documented with backup information and signatures; that vouchers and invoices were properly signed off; that warrants were properly approved for payment by the Board of Education and documented in the minutes; and that checks were written in the proper amounts per contract.

Another case in point concerning the checklist was the specificity of quotation and bid documentation that was required. For example, the School Business Administrator had to determine beforehand the estimated cost of the item(s) to be purchased, and to properly classify the purchase as a bid, quote or normal purchase. Quotation documentation required that at least three vendors be contacted for quotations when items cost in the range above 20% of the bid threshold. Bid documentation included bid specifications, public advertising and if the cost was above \$20,000, documentation also included bidder non- collusion affidavits and affirmative action statements.

Updates to the Current Law – Public School Contracts Law

The Public School Contracts Law, which pertained to purchasing in a school district, was recently enacted and will become effective on April 17, 2000. The new law addressed many of the concerns mentioned throughout this narrative and more closely aligned Public School Contracts with its Municipal counterpart. “Quotation” for example

was defined for the first time and bid thresholds are now the same for both schools and municipalities.

With so many changes to the current law, the New Jersey Association of School Business Officials and the New Jersey Department of Education have scheduled seminars for those affected, to review the new requirements and associated implications and to make the transition over the next six months as smooth as possible.

Chapter 5

CONCLUSIONS, IMPLICATIONS AND FURTHER STUDY

The research undertaken during this study enhanced the appreciation, awareness and respect the intern had for the laws enacted which governed procurement in public schools, the logic behind the procurement process, the need for complying with the law and the need for providing quality assurance through the audit program. It is through this study that the intern determined first hand that the influence and significance of the organizational culture could not be under estimated and that the driving force behind cultural change in the positive direction was good leadership.

Conclusions

The influence and significance of organizational culture was very apparent in a school district such as Sea Isle City. It took more than a decade for the culture to get to where it was as evidenced by “it had been past practice” for as long as staff members could recall so why change. Indeed, changes were made because past practices were no longer the right way to do them. Purchases could not be done just because staff members needed something for their classrooms. There needed to be a reason for the purchase, funds needed to be available, and there needed to be a document trail to prove that the purchase was done properly.

The organizational culture that existed in Sea Isle City was not the product of a single strong, dynamic and independent leader as evidence showed. The influence of the

Board of Education, the City Commissioners and taxpayers have all played a part in the decision making processes that molded the organizational culture into what was seen.

Sometimes however, the shock of an abrupt change in leadership was needed to more clearly see what had happened over the years. The two changes in administrative leadership in the Sea Isle City Public School during the past year have done just that. The change in the Business Office in the Ocean City School District three years ago was another example.

The leadership now in place in Sea Isle City was found to be strong, independent and forward thinking – people who understood organizational culture and dynamics and changing it, one task at a time. Presentations given at the beginning of the school year gave staff and administrators a heightened awareness of purchasing requirements for the district and with a few exceptions, the process was working the way it should.

Implications

The correlation between leadership in the area of school finance and the results of an Annual Audit can be measured. With good leadership and practices in place, a minimum of audit recommendations each year should be found. Conversely, when the number of audit recommendations is abnormally high or when they are repeated over a number of years, the apparent lack of control or competency of the individuals involved should be questioned.

How the Organization Changed as a Result of the Study

It was apparent that the organizational culture of the Sea Isle City Public School District had changed for the better over the last six months. The organization became more responsive to the right way of doing things. There were fewer errors and omissions, the purchasing process became more efficient and there were fewer exceptions to the rules that were established. Staff members know (with a couple of exceptions) that there is a budget and a spending plan, that they need to follow the rules for purchasing goods and services, and that whenever there was a situation or a problem, they could get it resolved.

Further Study

The procurement process that was described in this narrative is evolving and will continue to do so as long as there is a need for improvement. The benefits derived from private sector procurement should be addressed and incorporated. Problems that arise and abuses of the system also need to be addressed.

As a sequel to this study, a look into the procurement practices of the regulated utility industry would be of great benefit. Many of the same purchasing rules do apply, but they are more streamlined than the public sector in order to increase efficiency, contain costs and maintain the competitive advantage.

Intern's Leadership Development

The intern appreciated experience that this study allowed him to receive. It has refined his awareness of organizational culture and dynamics and what is required to

change that culture. The experience helped the intern develop a rapport, trust and respect with the staff, administration and Board of Education of the Sea Isle City Public School District. Finally, the experience gave the intern the opportunity to realize the importance of that rapport, trust and respect because without it, what was accomplished would be been impossible.

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Appendix A
The Audit Checklist

SECTION III - REPORTING
CHAPTER 6 - AUDIT CHECKLIST & QUESTIONNAIRE

TO BE COMPLETED BY BOARD SECRETARY/BUSINESS ADMINISTRATOR

CHECKLIST FOR ANNUAL AUDIT
CURRENT OPERATING FUND

SCHOOL YEAR 1998-99

- () 1. Complete Comprehensive Annual Financial Report (CAFR) as of June 30, 1999.
- () 2. Trial balance reflecting adjusting and closing entries as of June 30, 1999, as support for the CAFR.
- () 3. All books and records of the board secretary/business administrator including but not limited to:
 - a. General Journal for FY 1998-99
 - b. Special Purpose Journals for FY 1998-99
 - c. General Ledgers for FY 1998-99
 - d. Revenue Subsidiary Ledgers for FY 1998-99
 - e. Expenditure Subsidiary Ledgers for FY 1998-99
 - f. Chart of Accounts for FY 1998-99
- () 4. Analyses of open purchase orders at June 30, 1999. Separate lists must be prepared for accounts payable and reserve for encumbrances.
- () 5. Monthly reconciliations of all checking accounts including Bond and Interest Account.

Bank Statements for 13 months, including related canceled checks, debit and credit memos, returned by the bank and duplicate deposit tickets for the period July 1, 1998 through July 31, 1999.
- () 6. List of Investments, if any, outstanding as of June 30, 1999.
- () 7. Copies of all applications, third party contracts (when applicable), revenue verification notices, all approved budgets and budget modifications in connection with State and Federal Aid, including information on all approved special programs or projects.
- () 8. Copies of required financial Special Project Completion Reports filed in connection with State, Federal or special projects, such as IASA, Vocational reports, etc. Copies of prior year Special Project Completion Reports and copies of warrants remitting unexpended balances that were not approved for carryover to the grantor agency.
- () 9. Monthly statutory financial statements of the Secretary (Form A-148) and Treasurer (A-149).
- () 10. Minute book, complete and properly signed.
- () 11. All vouchers, properly documented, and purchase orders should be available for inspection and review.

- () 12. A separate file including copies of all legal advertisements, such as the adopted budget, requests for bids, and resolutions awarding contracts or agreements for professional services.
- () 13. All contracts, agreements, leases, and bids received in connection with the advertising referred to above. Contracts which the school board has entered into with the State Division of Purchase and Property in the purchase of materials, supplies or equipment for the school district must be available for review by the school district auditor.
- () 14. A schedule of all insurance coverage and fidelity bond coverage in effect during the year, and the related policies or continuation certificates on hand.
- () 15. All employee contracts.
- () 16. An analysis of any balance in the net payroll or payroll agency account.
- () 17. Monthly and quarterly remittance returns for all payroll agencies.
- () 18. All tuition contracts for sending/receiving between public schools, private schools for the disabled, and/or regional day schools and billings rendered on these contracts.
- () 19. The Treasurer of School Moneys should have his or her records in order and available during the course of audit.
- () 20. Approved Demonstrably Effective Program Operational Plan and Early Childhood Program Description, the 1998-99 Budget Statement Supporting Documentation Items 15 (Early Childhood Program Aid) and 16 (Demonstrably Effective Program Aid) which represent the approved plan, approved Carryover Funds forms and approved transfer notification forms.
- () 21. Schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis.
- () 22. Analysis for each balance sheet account balance as of June 30, 1999 not listed above.
- () 23. Universal Service Fund Form 470 (E-rate), Description of Services Requested and Certification and Form 471, Services Ordered and Certification. If received, Form 486, Receipt of Service Notification, and funding commitment letter, if applicable.
- () 24. The 1998-99 District Report of Transported Resident Students (DRTRS) Eligibility Summary Report produced by the department and the 1998-99 DRTRS Eligibility Summary Report produced by the DRTRS data collection software.
- () 25. Summary Schedule of Prior Audit Findings prepared in accordance with USOMB Circular A-133 section .315, if applicable.
- () 26. Latest revised CEIFA-SA1a (February 26, 1999) state aid printout reflecting the state aid adjustments for the 1998-1999 and 1999-2000 budgets.

SECTION I - GENERAL COMPLIANCE
CHAPTER 5

BIDS & CONTRACTS/PURCHASING

Bids & Contracts

N.J.S.A. 18A:18A-4. Contracts and agreements requiring advertising. "Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of school funds, not included within the terms of N.J.S.A. 18A:18A-3, shall be made and awarded only by the board of education after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law."

Effective July 1, 1997 no work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$12,900 except by contract or agreement issued to the lowest responsible bidder unless covered by N.J.S.A. 18A:18A-5.

N.J.S.A. 18A:18A-5 contains exceptions to the requirement for advertising and should be referenced by the auditor.

Although school districts are not required to formally bid School Food Service Management Company Contracts they must comply with N.J.S.A. 18A:18A-37 and 42.1 and 7 CFR. 210.16.

Effective July 1, 1997, N.J.S.A. 18A:39-3 was amended to increase the threshold for bidding of transportation contracts to \$12,300.

N.J.S.A. 18A:18A-42 permits the extension of certain contracts beyond one year. The following are basic categories of such extensions with the corresponding aggregate terms. The statute should be referenced for specific limitations and restrictions.

<u>ITEM</u>	<u>AGGREGATE TERMS (YEARS)</u>
(1) Fuel for Heating	3
(2) Fuel/Oil for Vehicles	3
(3) Thermal Energy (Approved by Board of Public Utilities)	20
(4) Removal of Snow and Ice	3
(5) Garbage Collection	3
(6) Data Processing Services	5
(7) Insurance	3
(8) Leasing of equipment in accordance with rules and regulations of the State Board of Education	5
(9) Sale and lease-back of textbooks and non-consumable instructional materials	5
(10) Telephone Services	5
(11) Materials, Supplies or Services required on a recurrent basis	2 (Initial) 3 (Additional)
(12) Driver Education	3
(13) Work, Services, Materials, Supplies for the purpose of conserving energy	10

Review of Purchase Orders

As discussed in Section I, Chapter 8, "Year-End Procedures", districts are required to perform a review of purchase orders outstanding at June 30th and categorize the orders into three categories: 1) those that represent orders for which the goods have been received or the services have been rendered at June 30th but that have not been paid (accounts payable); 2) those that represent orders which will be honored in the subsequent year within 60-90 days of year end; 3) all others. Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be shown in the June 30th general fund balance sheet as a reserve for encumbrances. As a general rule, the orders in category 3 should be canceled. As documentation of the review, districts must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund. The total of each category 1 list must agree with the June 30th balance in the general ledger balance sheet account for accounts payable of the applicable fund. The total of each category 2 list must agree with the June 30th balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund. (Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Chapter 8. Also, for CAFR presentation, in the special revenue fund, the reserve for encumbrances is grouped with deferred revenue in the GAAP balance sheet.) Local school district auditors must review the lists and their related documentation and challenge the propriety of the district's classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

With the implementation of GAAP, it came to light that for many districts, it was a common practice to issue blanket purchase orders against appropriation accounts. A purchase order represents a commitment against an appropriation. Purchase orders should not be issued without an underlying contract or actual order of goods or services. Blanket purchase orders should not be issued. The auditor's review of orders for blanket purchase orders should not be limited to purchase orders outstanding at June 30th. The issuance of blanket purchase orders at any time during the year should be reported by the auditor as a finding and recommendation in the Auditors' Management Report.

Credit Cards

Neither boards of education nor district officials may use credit cards for the purchase of goods and services. Statutory requirements direct how boards of education may purchase goods and services and establishes the procedures to follow in paying for the purchase of goods and services. Purchases made by boards of education must comply with N.J.S.A. 18A:18A-1 et seq., the Public School Contracts Law, and the payment of claims by a board of education must comply with N.J.S.A. 18A:19-1 et seq., "Expenditure of Funds; Audit and Payment of Claims." These regulations are intended to ensure that competitive bidding procedures are followed and certifications regarding the authenticity of claims are received. Pursuant to N.J.S.A. 18A:19-13 and N.J.A.C. 6:20-2A.8, a board of education may establish a petty cash fund on July 1st of each year, or as needed, for the purpose of making immediate payments of comparatively small amounts. Large purchases should be made through the contractual order system.

Appendix B

Sea Isle City Board of Education Purchasing Manual

SEA ISLE CITY BOARD OF EDUCATION
Sea Isle City, New Jersey 08243

Purchasing Manual
April 2000

INTRODUCTION

The Sea Isle City Board of Education believes that the management of public funds requires sound fiscal planning and controls and desires to establish and implement a method for purchasing and accounting that will help provide an effective educational program while assuring against loss due to carelessness, inefficiency, theft or improper maintenance of records. The Board of Education also desires that records be maintained in accordance with generally accepted accounting principles (GAAP), applicable New Jersey State Statutes and Codes, the New Jersey Department of Education Division of Finance regulations and directives and other regulatory agencies.

This manual is being developed to promote sound fiscal planning and budget development, to promote the controlled expenditure of public funds and to assure compliance with state and federal laws and regulations.

Purpose

The purpose of this manual is to promote efficiency and good practice and provide guidelines to all district employees for the requisition, procurement and receipt of all goods, services and materials purchased by the Sea Isle City Public School District.

Responsibilities

The Sea Isle City Board of Education has overall responsibility in maintaining school district records in compliance with applicable statutes, codes and regulations.

The School Business Administrator is responsible for maintaining district records, authorizing all purchases and assuring that adequate funds are available, and assuring that the district is in compliance with applicable statutes, codes and regulations.

The Chief School Administrator is responsible for approving all purchases.

The Requisitioner is responsible for identifying the items or services to be purchased, identifying the program where the items or services will be used, determine to the extent possible the source, delivery date and costs of the items or services being purchased and for receipt

The Accounts Payable Clerk is responsible for assuring that proper documentation accompanies the requisition and purchase order, and assures that closing documentation is in order prior to presentation to the Board for payment.

Definitions

Bid Threshold: The dollar limit established by State Law above which competitive bids are required, subject to the exceptions as outlined by statute. The current bid threshold is \$13,400.00.

Competitive Bids: The process of specifying, bidding, evaluating and awarding of contracts for purchases of goods and services whose value is above the bid threshold.

Competitive Quotes: The process of specifying, soliciting, evaluating and awarding of contracts for purchases of goods and services whose value is above 20% of the bid threshold.

GAAP: Anachronym for Generally Accepted Accounting Principles. GAAP is the standard system of accounts in use by all school districts within the State of New Jersey.

Purchase Order: A legally binding contractual agreement between the school district and a vendor for the provision of goods or services.

Quote Threshold: The dollar limit established by State Law above which competitive quotes are required subject to the exceptions as outlined by statute. The quote threshold is 20% of the bid threshold.

Reimbursements: A reimbursement purchase order pertains to expenses by an employee pre-approved by the Chief School Administrator or School Business Administrator.

Requisition: A request for the purchase of goods or services.

Requisitioner: Any person employed by the district who initiates the purchase of goods or services for the district

Specifications: Detailed description of items to be purchased or services to be rendered.

State Contract: An agreement negotiated between the State and a vendor to provide goods or services at a specified price and duration. Purchases made through State Contracts are normally exempt from competitive quotes or bidding requirements.

Unauthorized Purchase: Any employee who orders and receives any material, supplies or services without first obtaining proper approval to do so, has made an authorized purchase. Unauthorized purchases are a violation of State Statute and Board policy.

Vendor: Any company, organization, government entity or individual who provides goods, services or does business with the district.

Verification of goods and/or services: Assurance that the goods or services received were as per specifications.

Voucher: An affidavit signed by the vendor attesting to the fact that goods or services that were provided were provided as specified.

PROCEDURE

Requisitions:

When the need arises, school district employees may requisition goods or services which are deemed necessary to support the educational process and wellbeing of the students.

The requisitioner identifies the need and use of the goods or services using the requisition form. To the extent possible s/he also determines the source of the item(s) and estimated cost. If the item(s) being requisitioned from multiple vendors, then separate requisition forms must be used. When completed, the requisition is forwarded to the Chief School Administrator or designee for approval.

The Chief School Administrator will either reject the requisition, modify it or approve the requisition and forward it to the Board Office for further processing.

The Accounts Payable Clerk will review the requisition to assure that there is adequate backup information to process a purchase order. Backup information will include but not limited to a detailed description of the item(s) or services being purchased, the cost of the item(s) source of the item(s) and the program for which the item(s) is being purchased, (for example Title I supplies). When the review is completed, then the Accounts Payable Clerk will affix the vendor number to the requisition form and forward the package to the School Business Administrator.

The School Business Administrator will review the package for compliance and determine if the item(s) were budgeted, that funds are available, affix the proper accounting information to the requisition, determine if purchase can be made through a sole source, state contract, competitive quotes or must be bid in accordance with statute. In the case where the item(s) was not budgeted, the School Business Administrator will determine if the item(s) can be purchased using the available balance from that line of accounting.

Following this review, the School Business Administrator (or designee) will enter the requisition information into the database for the creation of a purchase order. A purchase order number will be automatically assigned or in the case of a manual purchase order, the purchase order number will be logged in. Manual Purchase Orders will follow the same approval process as stated above.

Purchase Orders

The School Business Administrator or designee will generate the purchase order, assuring that the information is correct, attach the appropriate backup information, sign the purchase order and forward the package for further processing.

The Accounts Payable Clerk will obtain the record copy of the purchase order and transmit the document to the vendor, with payment instructions.

Receipt and Inspection

Upon receipt of the item(s) that were purchased, the requisitioner will verify that the item(s) that were received were as ordered and in the expected condition, noting any problems, back orders, shortages etc. When the inspection is completed, the requisitioner will sign the receiving report and forward it to the board office. Note that in the case of partial or multiple deliveries, a receiving report is required for each time a delivery is made until the order is complete.

For purchases that involve the delivery of services, the requisitioner will verify that the services were rendered in accordance with the purchase order, sign the delivery receipt and forward it to the board office. In the case of ongoing or multiple services being rendered, the

requisitioner will verify the services on an ongoing basis but in no case more than one-month intervals.

Following receipt of the goods or services, the vendor will sign the voucher copy of the purchase order attesting to the fact that the vendor is responsible for the goods or services that were delivered, initiate an invoice for payment and forward the package to the board office for payment. Note that the district will make payments for goods or services that have been received with proper documentation.

In the case of professional ongoing services being rendered, vouchers will be forwarded to the board office at no more than one-month intervals by the Wednesday prior to the regular monthly board meeting.

Payment of Warrants

After the vouchers signed by the vendor's authorized agent, receiving reports, and invoices have been received by the board office, the Chief School Administrator or designee and the School Business Administrator will review all vouchers marked for payment and purchase orders marked for closure and sign indicating acceptance. Invoices vouchers and receiving reports must be received by the board office no later than the Wednesday prior to the regular monthly board meeting to avoid delays in processing.

The Account Payable Clerk or designee will process the authorization for payment. S/he will enter all purchase orders marked for payment into the database. Submittal of the check run and associated reports will be initiated by the Friday prior to the regular monthly meeting, to avoid delays in processing.

The warrant list and associated documentation will be presented to the Board of Education for approval at the regular monthly meeting.

Following approval of the warrants by the Board of Education, the Account Payable Clerk or designee will obtain the authorizing signatures for checks whose warrant have been approved. Checks will then be transmitted the vendor for payment.

Exceptions

Exceptions to this process will be addressed on a case by case basis by the School Business Administrator and/or the Chief School Administrator

Attachments:

Purchase Order Flow Diagram

References:

- | | |
|---|---------------------------------------|
| Sea Isle City Board of Education Policy 3300 | Expenditures/Expending Authority |
| Sea Isle City Board of Education Policy 3320 | Purchasing Procedures |
| Sea Isle City Board of Education Policy 3323 | Soliciting Prices/Bids and Quotations |
| Sea Isle City Board of Education Policy 3324.1 | Contracts |
| Sea Isle City Board of Education Policy 3326 | Bill Payment Authorization |
| Sea Isle City Board of Education Policy 3542.44 | Purchasing |
| N.J.S.A 18A:18A-1 et seq | Public School Contracts |

Biographical Data

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