



# AUDITOR GENERAL

1994/95: REPORT 1

*Value-for-Money Audits*

**PURCHASING IN SCHOOL DISTRICTS**



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The Honourable Emery Barnes  
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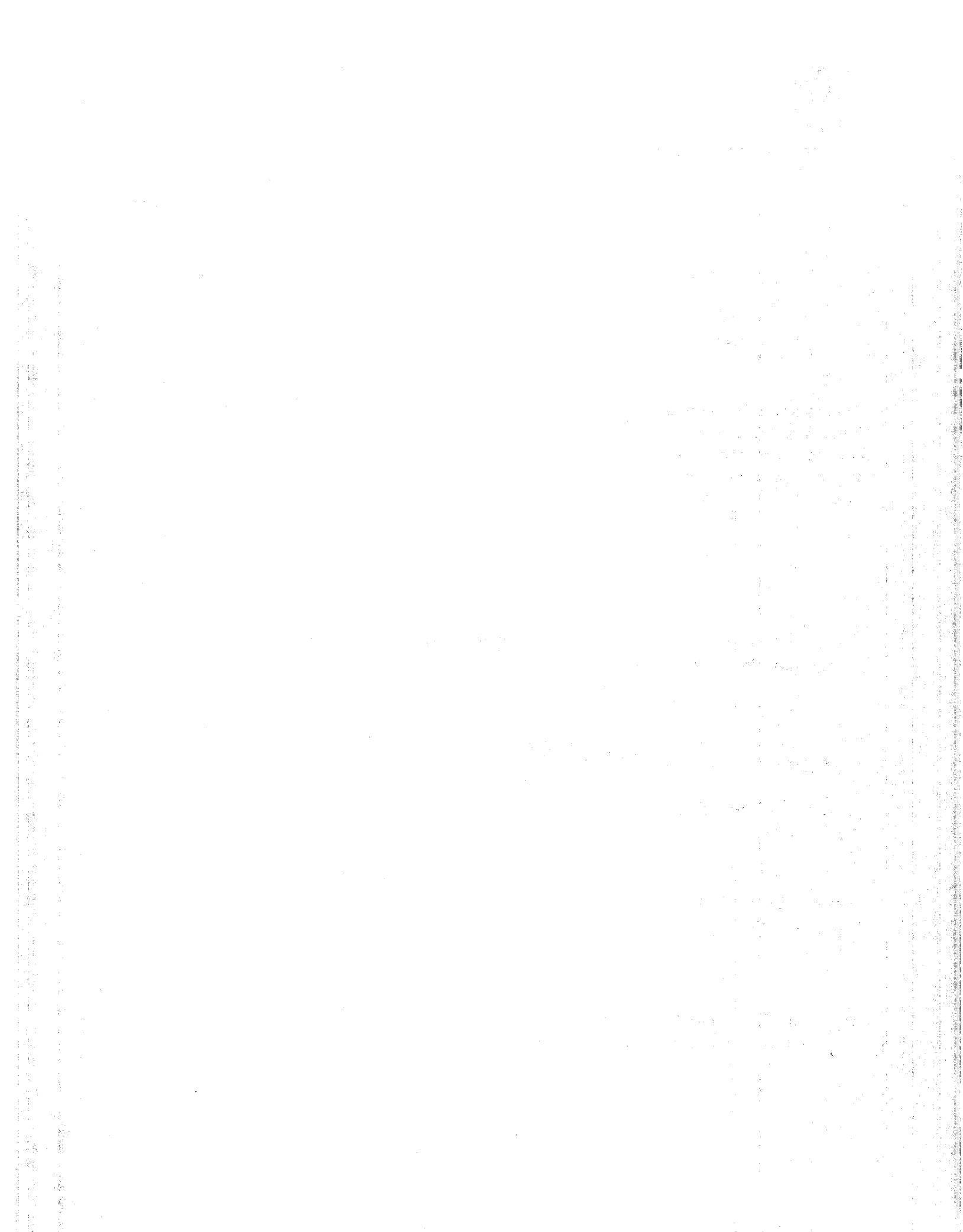
Sir:

I have the honour to transmit herewith my Value-for-Money Report to the Legislative Assembly on Purchasing in School Districts.

George L. Morfitt, FCA  
Auditor General

Victoria, British Columbia  
September 1994

copy: Mr. E. George MacMinn, Q.C.  
Clerk of the Legislative Assembly



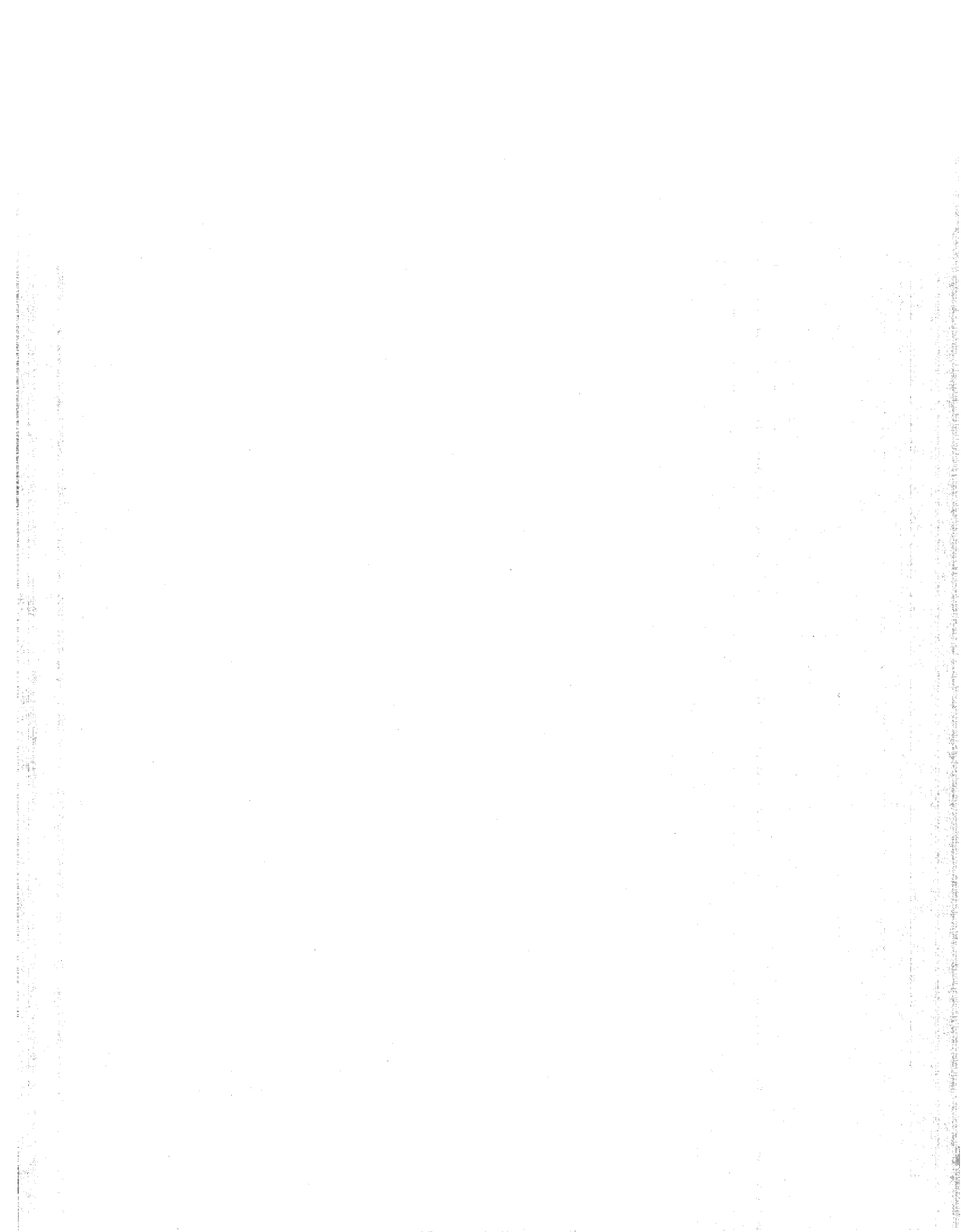


# Purchasing in School Districts

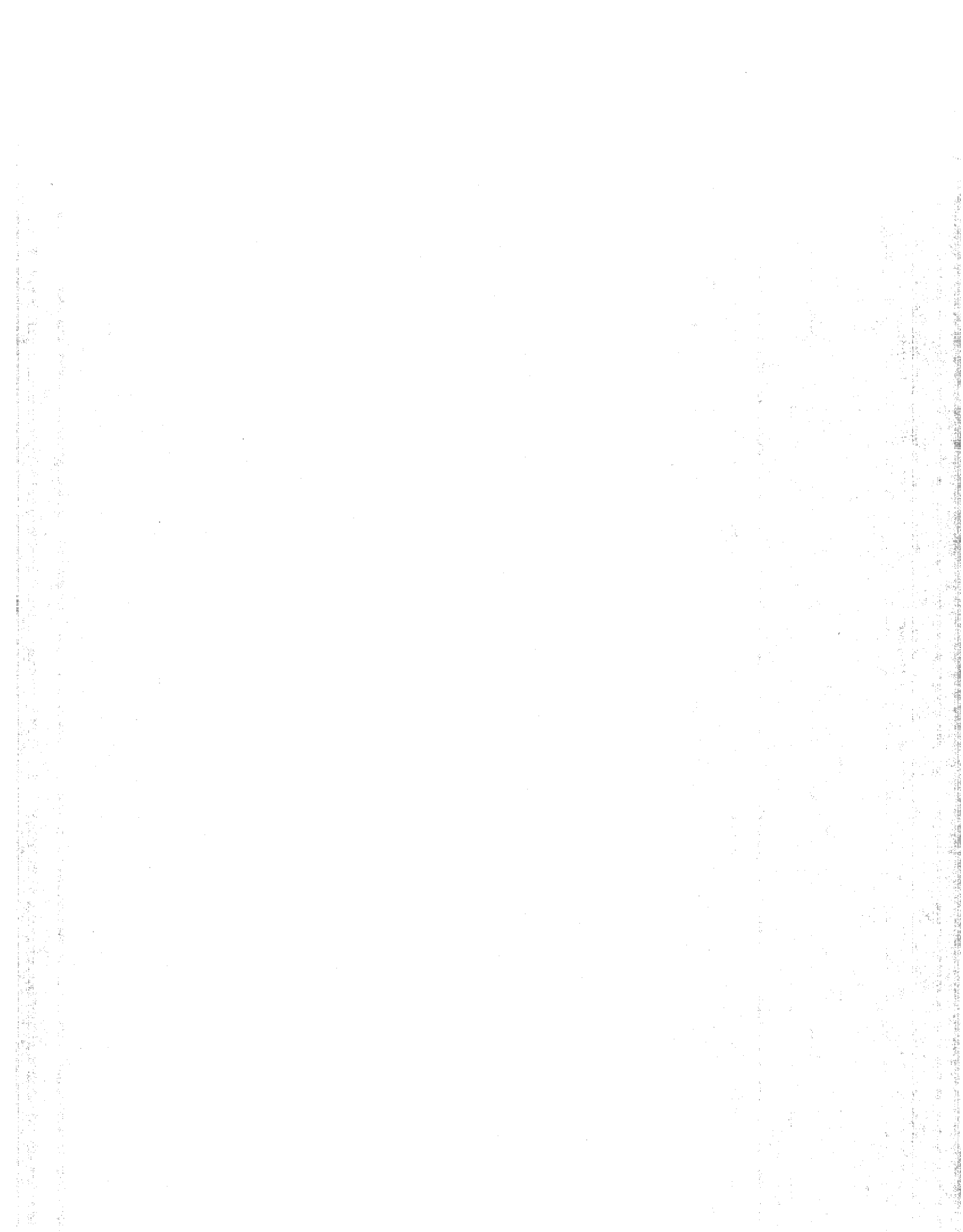
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\* At the conclusion of each of these audits we provided management with an opportunity to write a response, for publication, to our report on their district. Three such responses were received and are included in this report.



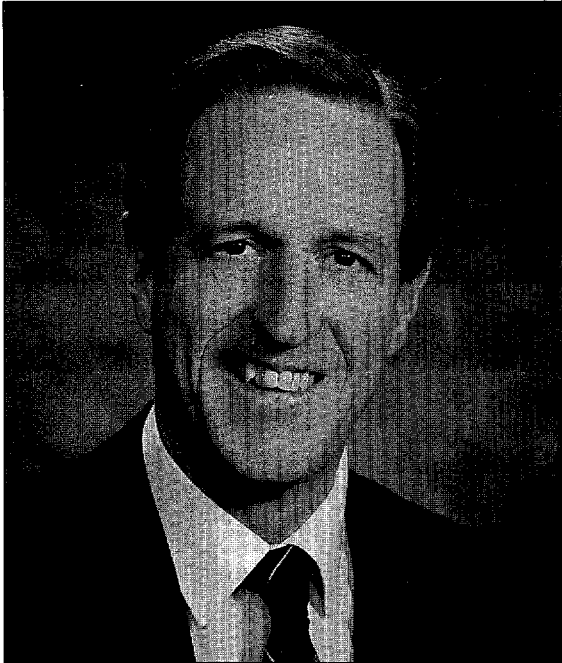
# ***Auditor General's Comments***







# Auditor General's Comments



This report, my first to the Legislative Assembly for the 1994/95 year, contains the results of my Office's first value-for-money audit conducted outside of central government.

We have been undertaking value-for-money examinations of the programs administered by government ministries since 1979, and will continue to do so. However, more and more we are finding that although ministry programs fund and regulate the delivery of services to the public, the actual service delivery is provided by public bodies such as hospitals, colleges, or school districts. Accordingly, we have now extended our value-for-money work to include these public bodies and other service agencies.

School districts were a natural choice for our first value-for-money audit in public bodies.

Public education is of major interest to both the Legislative Assembly and the public, in part because of the large sums expended. Further, an audit in school districts fitted well with the ongoing work of my Office, since our long-term plan, which provides for cyclic coverage of all major government programs and activities, called for us to examine again issues related to public education.

This audit was an introduction in two senses. For my Office, it was our first in-depth look into the business and culture of public bodies, which have both similarities with, and differences from, government ministries. For school districts, it was their first close contact with the work and duties of my Office. I felt that this mutual introduction process would work best if we examined one of the more straightforward business functions of districts, rather than one of the more specialized aspects of educational delivery. Purchasing was a natural choice within the business functions, since it is a significant activity in school districts, and our Office had done work previously on public sector purchasing.

I am pleased to report that this audit has met my expectations. As a result of undertaking this work, I am able to report to the Legislative Assembly and the public on a significant aspect of the administration of school districts. I am also able to report that this



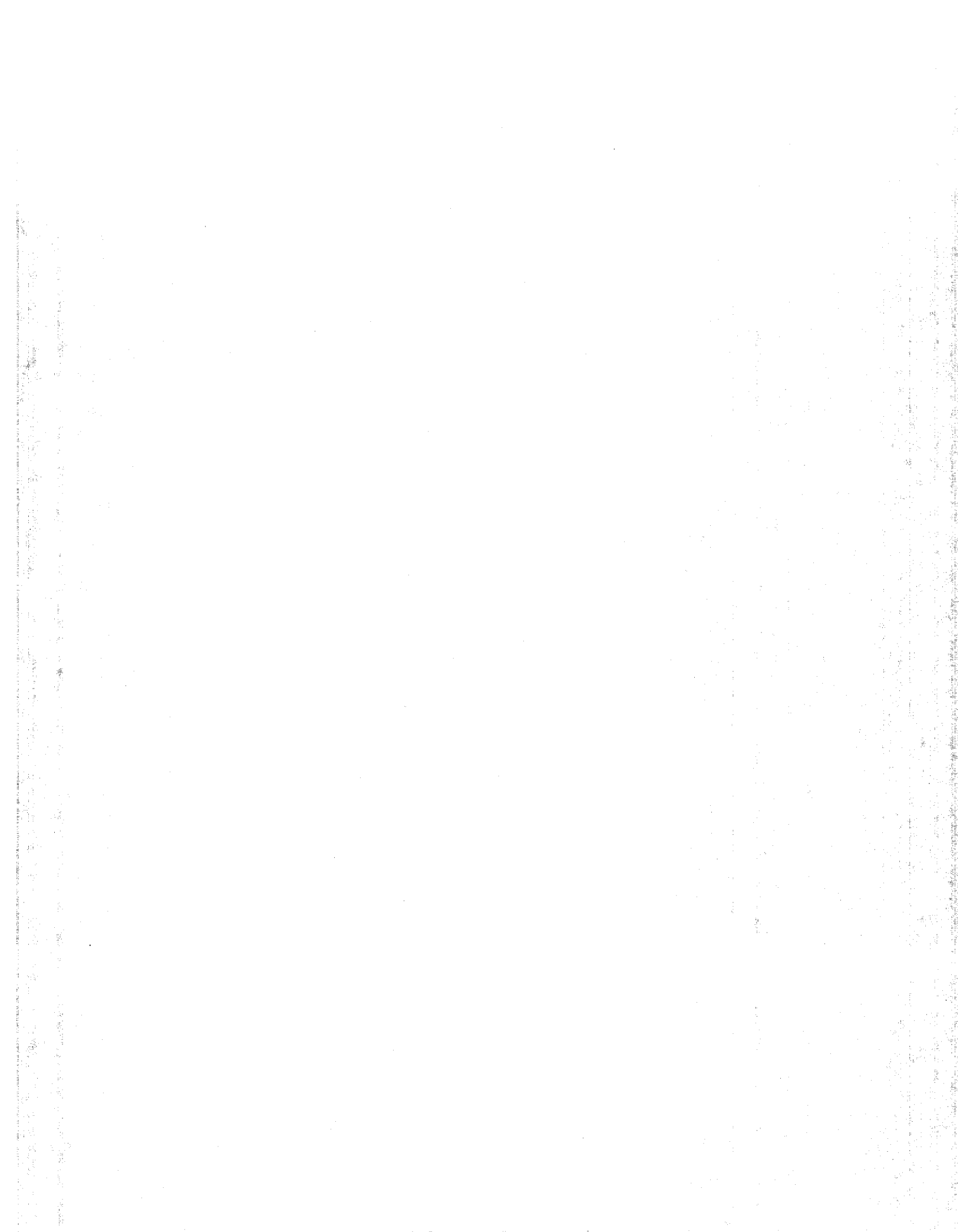
first audit in public bodies went well from my Office's perspective and was, I believe, well received by school districts. I look forward to exploring other activities in public bodies that are of interest to the Legislative Assembly.

George L. Morfitt, FCA  
Auditor General

Victoria, British Columbia  
August 5, 1994



***Overview***





# Overview

This publication contains the results of value-for-money audits conducted in six school districts in 1993/94. This overview section highlights those findings from the audits that have implications for other districts in the province.

## Why Examine Purchasing in School Districts?

Although the Ministry of Education regulates and funds the public school system in British Columbia, it is not directly responsible for the system's operation. Instead, it provides \$3.4 billion a year (1993/94 *Estimates*) of operating funds and debt servicing to 75 publicly elected school boards. These boards operate more than 1,000 schools and serve more than half a million students.

The Ministry of Education gives each district a sum calculated to cover all the costs of its annual operations, rather than giving it a number of smaller amounts tagged for particular uses. While the largest of these uses is direct education delivery—classroom teaching—there is also a significant business side to each district. Buildings must be maintained, heated, and cleaned, payroll checks must be issued, and supplies must be bought. Our audits examined one of these business activities, the purchasing of goods in school districts. Goods purchasing is a significant activity, with expenditures amounting to more than \$200 million a year.

## The Audits We Conducted

We examined purchasing practices in 6 of the 75 school districts in the province: Courtenay (#71), Kamloops (#24), Langley (#35), Peace River North (#60), Surrey (#36), and Windermere (#4). As illustrated in Exhibits 1.1 and 1.2, the districts were chosen to represent a diversity of size and location.

Our purpose was to determine whether the purchasing methods in these districts give them good value when they are acquiring supplies. Good value means obtaining the right goods to meet the specified need at the lowest overall cost, including the cost of acquiring the goods. Doing this requires that responsibilities be properly assigned, training be provided as necessary, performance be monitored, and sound purchase techniques be adopted. Furthermore, purchasing activities must be carried out with probity (honesty in fact and in appearance) and suppliers must be treated equitably.

Our audits did not include an examination of whether school districts made good use of the materials purchased; we looked only at the

ways the materials were acquired. Also, we did not examine the purchase of services.

Recognizing that no organization stands still and that processes are always being changed or improved, we focused our audit work on purchasing policies and processes in place in the 1993/94 school year. We also looked at the history of a process when it helped us better understand the current situation.

Our examinations were conducted in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## Purchasing in School Districts: What We Found

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We conducted separate audits of the six districts we selected for examination and have reported separately on each of them in this publication. None of these audits disclosed problems that the districts concerned could not solve themselves. We do not believe that school district purchasing should require direct intervention by the Ministry of Education or any other government agency in order to correct any weaknesses disclosed by our audits.

Our purpose in this introduction is to discuss patterns we discerned during our six audits—patterns that we believe are of significance for school districts throughout the province. These patterns relate to how the purchasing function is organized, how strategic purchase decisions are managed, how purchasing performance is reported, and how districts work together in carrying out the purchasing activity.

### Developing a Learning Culture to Support Purchasing

Most of the districts we visited use, or are moving to, a school-based form of management where most decisions are made at the school level and not by central administrators. We understand that this model is becoming common for many school districts in the province.

Shifting to more school-based management has two implications for the organization of the purchasing function, both of which we saw exemplified during our audits.

The first is that a district has to make sure that staff understand what their new responsibilities are. School personnel may, for example, be given the added responsibility of ensuring that purchase contracts meet district standards. Central purchasing departments may need to redefine their roles, becoming more a service agency than a control agency but keeping those control functions that are essential to the district's well-being.

The second is that a district needs to develop an environment that facilitates staff learning about purchasing. Because purchasing responsibilities are more widely distributed in school-based

management, a larger number of people in the district need to understand good practice in public sector purchasing. This means that districts need to develop an environment that facilitates learning about purchasing.

The impression we got from our field visits to the districts is that the non-specialist purchasers in schools had a reasonable understanding of how to get good value, perhaps because that is something that all people are familiar with in their private lives.

However, a school district is both bigger and more publicly visible than an individual buying for his or her own family. This means it must make sure that it treats all suppliers fairly and that it must make clear to the public it is carrying out its dealings with probity. We noted weaknesses in how well districts have stated their policies on equitable treatment of suppliers, stated their policies on conflict of interest and other probity questions, and made sure that school staff understand these policies.

We believe that all districts in which purchasing responsibilities are decentralized should see that their policies and procedures are clearly stated and well understood.

To continue to improve their knowledge of purchasing, district staff need to learn what was done in the past and to build on it. We found this was not easy to do in most districts, whether they had central purchasing departments or not. Generally, district record-keeping systems were well set up to show that transactions were properly authorized and accounted for, but not to make it easy to find out the rationale behind the actual buying decision—for example, why a particular product or supplier was chosen. Staff in central purchasing departments make such decisions frequently and carry some of this information in their heads. School staff, on the other hand, making only occasional purchases and central departments expanding or undergoing staff change cannot rely on personal memory alone to help them maintain and improve their purchasing performance.

We believe that, in many cases, districts can make low-cost improvements to their record-keeping systems and practices that will help district staff continually improve their purchasing skills by learning from past decisions. Such improvements will be of added value when, later this year, the *Freedom of Information and Protection of Privacy Act* is extended to apply to school districts.

## Strategic Purchases

For us, one of the most interesting parts of purchasing in school districts was the manner in which districts manage “strategic” purchases, such as microcomputers, photocopiers, and textbooks and other learning resources. These purchases, representing a significant cost, affect how schools educate their students. They also affect future choices made by the district by, for example, setting de facto

standards that future purchases have to follow. Districts focus much time and attention, including senior management attention, on strategic purchases.

### *Microcomputers and Photocopiers*

The buying and managing of computers for schools can directly affect the way teachers teach and students learn. The costs involved are large enough that districts have to plan their expenditures over several years. The choices are confusing and constantly changing. Most of the districts we visited have recognized the special nature of computers and have district-wide committees to examine the options, decide on standards, and plan out purchases over several years.

Photocopiers, though relatively expensive and technically complex, are essential tools in schools. Several districts we visited acquire and manage photocopiers centrally, using a committee to determine a district standard. However, two of the districts have moved away from this approach. Instead, they ensure that schools have sufficient information on the costs and performance of the makes and models available, and then leave final choices to the schools.

We believe that photocopiers are in transition from being treated as a strategic purchase to being treated more as a commodity, purchased on the basis of clearly defined costs and performance. Some district staff we interviewed believe this is also the case for computers in the large and technically sophisticated schools. This suggests that the purchase and management of these machines no longer needs central direction. It was apparent to us during our district visits that this shift from strategic technology to commodity has happened in the past. Audio-visual equipment is an example, where the performance characteristics of equipment now tend to be generic.

We believe that districts should periodically review their methods of managing strategic purchases of technical equipment, to determine whether these purchases still merit the effort and management attention focused on them, or whether they can be managed more simply as commodities.

### *Textbooks and Other Learning Resources*

In buying textbooks and other learning resources, districts need to balance the desires of individual teachers for the tools that will help them to teach best, with the benefits of standardization. The latter include more continuity for students as they advance or move between schools, time savings because each school or each teacher does not have to review and select texts, and the potential for cost savings through bulk buys.

The way in which learning resources are chosen and acquired has changed much recently. The Ministry of Education centrally



managed the selection and purchase of most textbooks and other learning resources until five years ago, when it transferred this responsibility to the districts. (The ministry still supplies some learning resources, but school districts now buy most learning resources directly from publishers.) In turn, some districts have assigned responsibility for selecting and obtaining materials to the schools, while others have set up district committees to develop recommendations or set requirements.

Districts that chose to standardize learning resources at the district level got an added economic benefit: they were able to buy learning resources in bulk and so pay discounted prices and minimize transaction costs. Through bulk orders, districts can save as much as 15-20% of the regular cost of the textbook or learning resource. Since province-wide spending on the purchase of learning resources direct from publishers is \$23 million a year, we believe that these are worthwhile savings that should be pursued by districts not already bulk buying. Smaller districts could look beyond their own boundaries at the possibility of agreeing on standards and carrying out joint purchases with neighboring school districts.

We recognize that it is difficult to coordinate ordering so that there is enough time for schools to work out their needs, for purchasers to organize bulk orders, and for resources to arrive before the new school year. However, some districts are already managing to do this.

## Reporting on Performance

Accountability for purchasing in school districts is not well developed. As we noted in our individual reports, purchasing is not usually reported to the board as a separate business function.

This lack of information on whether purchasing, in addition to other support functions of a district, is well run impairs the ability of boards to carry out their accountability responsibilities to their wider audience: the public, the ministry, and the legislature. Summary information on these topics would be useful to this wider audience, which wants assurance that the support side of education is not impeding or taking funds from the educational function itself.

School districts may find it helpful in this regard to look at the experience of their partners in education, the province's colleges and institutes. These bodies recently analyzed their need for better accountability and the practical methods of going about it, and published their findings as *Reporting on Effectiveness in Colleges and Institutes: A Proposed Accountability Framework for the British Columbia Public System* (Canadian Comprehensive Auditing Foundation, Ottawa, 1993). Several institutions are currently pilot-testing this framework. We believe the colleges' and institutes' work can be of value to school districts.



## Working Together in Purchasing

When we started our audits, we expected to find that districts frequently worked together on purchasing. After all, they conduct the same business, exist side by side, and buy the same kind of materials. In our minds, there seemed to be good potential for getting lower purchase costs and lower transaction costs through joint purchases.

What we found was that joint buying between school districts or between school districts and other public bodies was not common, especially outside the lower mainland. There appeared to be two major reasons why joint purchases were not common. One was perceived lack of advantage: districts felt that, for many commodities, they had enough buying power to get the same or better terms as through joint purchasing. We noted, for example, that all the districts we visited appeared to be getting reasonable terms on their purchases of heating fuel and photocopy paper without engaging in joint purchases.

The second reason was that joint buying often requires that one or more districts change their district standards or preferences in order to participate in a joint purchase. For example, even if two neighboring districts recognize the advantages of standardizing, say, overhead projectors, each may settle on a different brand. Both could pay lower purchase costs if they jointly bought overhead projectors, but that saving would happen only if one district changed its standard.

We concluded that there is still potential for school districts to do more joint purchasing, but that it would be most cost-effective if districts concentrated on making purchases of items for which standards or preferences can be harmonized between districts with the least disruption and cost. Some possibilities include:

- Textbooks and other learning resources: Because some districts are still in the process of working out how to establish standards within their districts, they still have the flexibility to develop joint standards.
- Classroom furniture: Standards for furniture can change over time with little problem of matching with previous standards. Although it is important that furniture within a classroom be consistent, and it is helpful if within a school it is consistent, it need not be identical in every school in a district.
- Generic DOS-based computers: The technology is changing so rapidly that districts cannot maintain consistency between generations of equipment. In effect, districts are forced to rethink their standards every time a new generation of equipment becomes available. Doing the rethinking in company with other districts could make that task easier.



- Custodial supplies: Most districts choose custodial supplies on the basis of tested performance, and custodial managers are willing to make changes whenever a more cost-effective product is available. If joint buying makes an acceptable product less costly, it will be welcomed.

Increased information sharing on purchasing may have even more potential than does joint buying for providing cost-effective benefits to districts. In our audits we saw districts behaving cooperatively in two ways: seeking advice when undertaking a purchase not commonly undertaken, and jointly carrying out projects each district wanted to do but did not have the resources or internal priorities to do alone.

The first kind of cooperation was most common in connection with equipping new schools, especially secondary schools. School districts do not all grow at the same rate, and smaller districts especially may not have recently opened a new school. We encountered several practical examples of how districts could take advantage of others' experience with new schools, such as obtaining handbooks on how to carry out the process, borrowing standard equipment lists and databases, and seconding an experienced staff member from another district. We believe that this kind of information sharing should be considered by all districts.

The second kind of cooperation is exemplified by the work being done by a consortium of school districts and other public bodies in the lower mainland, which developed a set of standard clauses to use in purchase contracts. We believe this kind of cooperation can also be used to develop standard policy statements on probity and fairness in purchasing, and to organize continuing education programs specifically oriented to purchasing in school districts.



## Exhibit 1.1

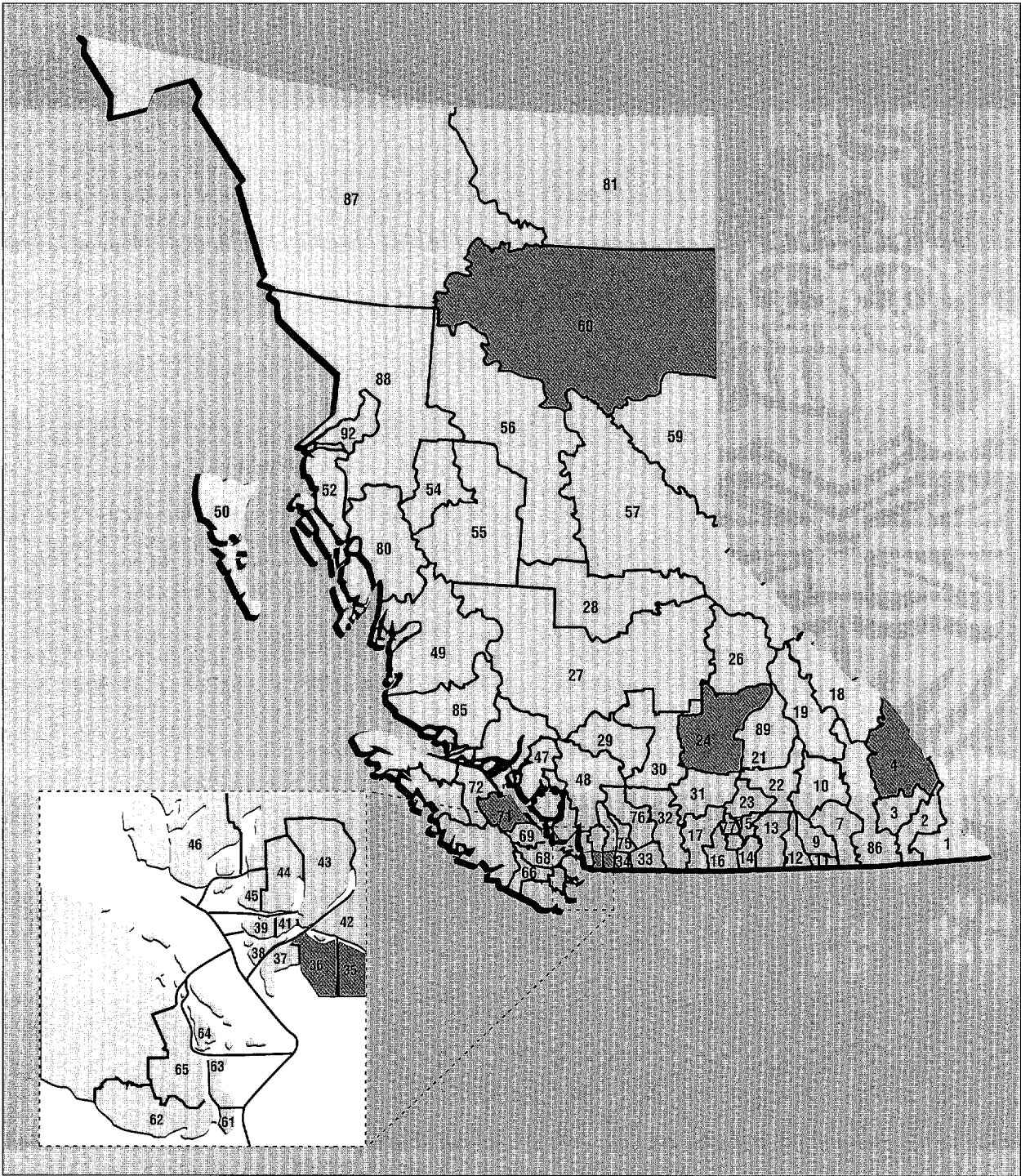
### School Districts Audited

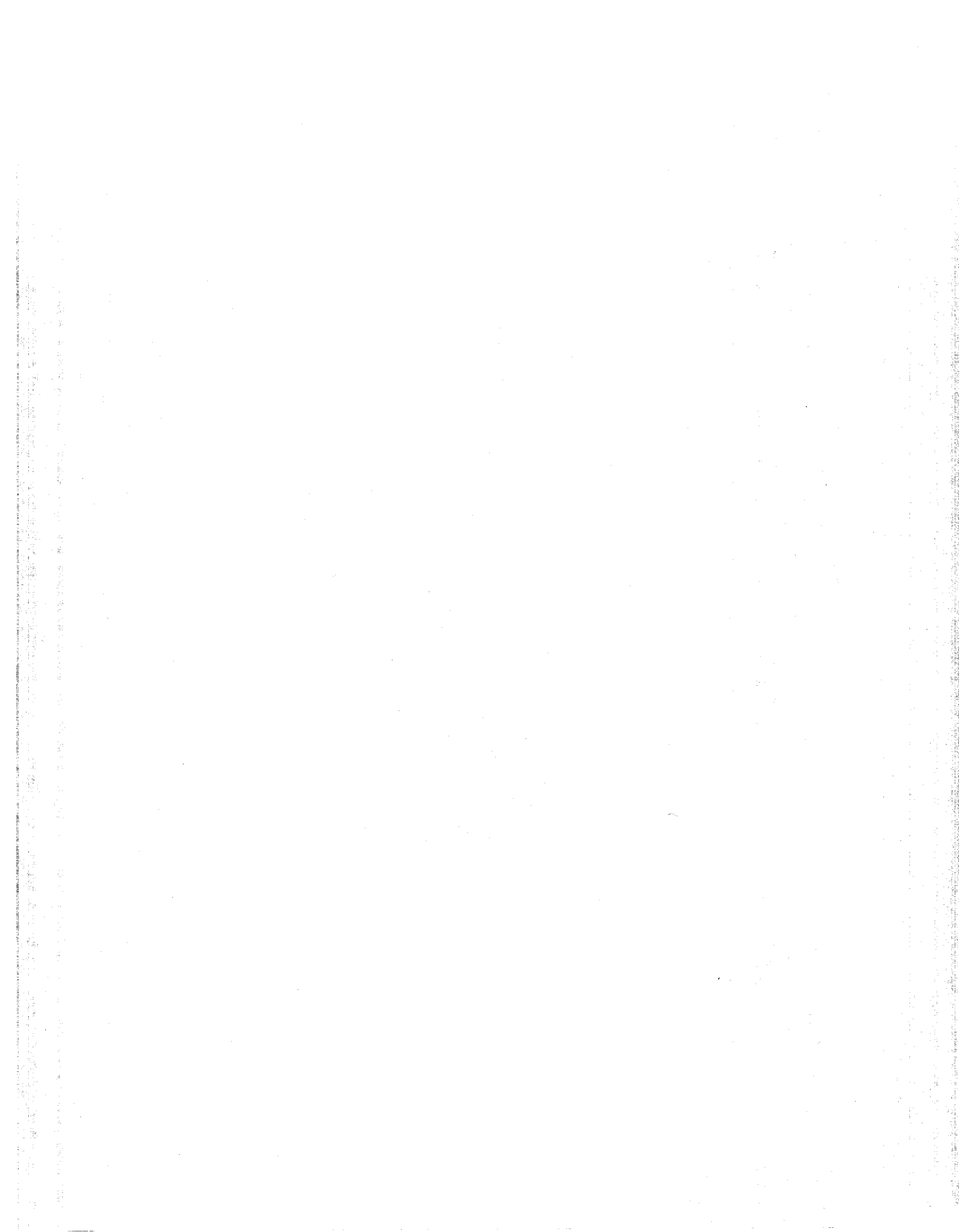
School District and Main Centers Served	Operating Budget (\$ million)	Number of Students	Average Annual Enrollment Growth (%)	Number of Teachers (Full-and part-time)	Number of Schools
	1993/94	1993/94	1990-94	1993/94	1993/94
<b>Courtenay (#71)</b> Comox, Courtenay, Cumberland	50	9,500	4.2	551	24
<b>Kamloops (#24)</b> Barriere, Chase, Kamloops, Logan Lake	91	16,300	1.5	956	51
<b>Langley (#35)</b> Aldergrove, Fort Langley, Langley	101	18,000	1.6	1,185	42
<b>Peace River North (#60)</b> Fort St. John, Hudson's Hope, Taylor	32	5,300	0.4	338	20
<b>Surrey (#36)</b> Cloverdale, Surrey, White Rock	284	46,000	3.5	2,950	95
<b>Windermere (#4)</b> Invermere, Radium, Windermere	9	1,400	3.3	93	7



## Exhibit 1.2

Map of BC Showing Location of the Six Districts Audited





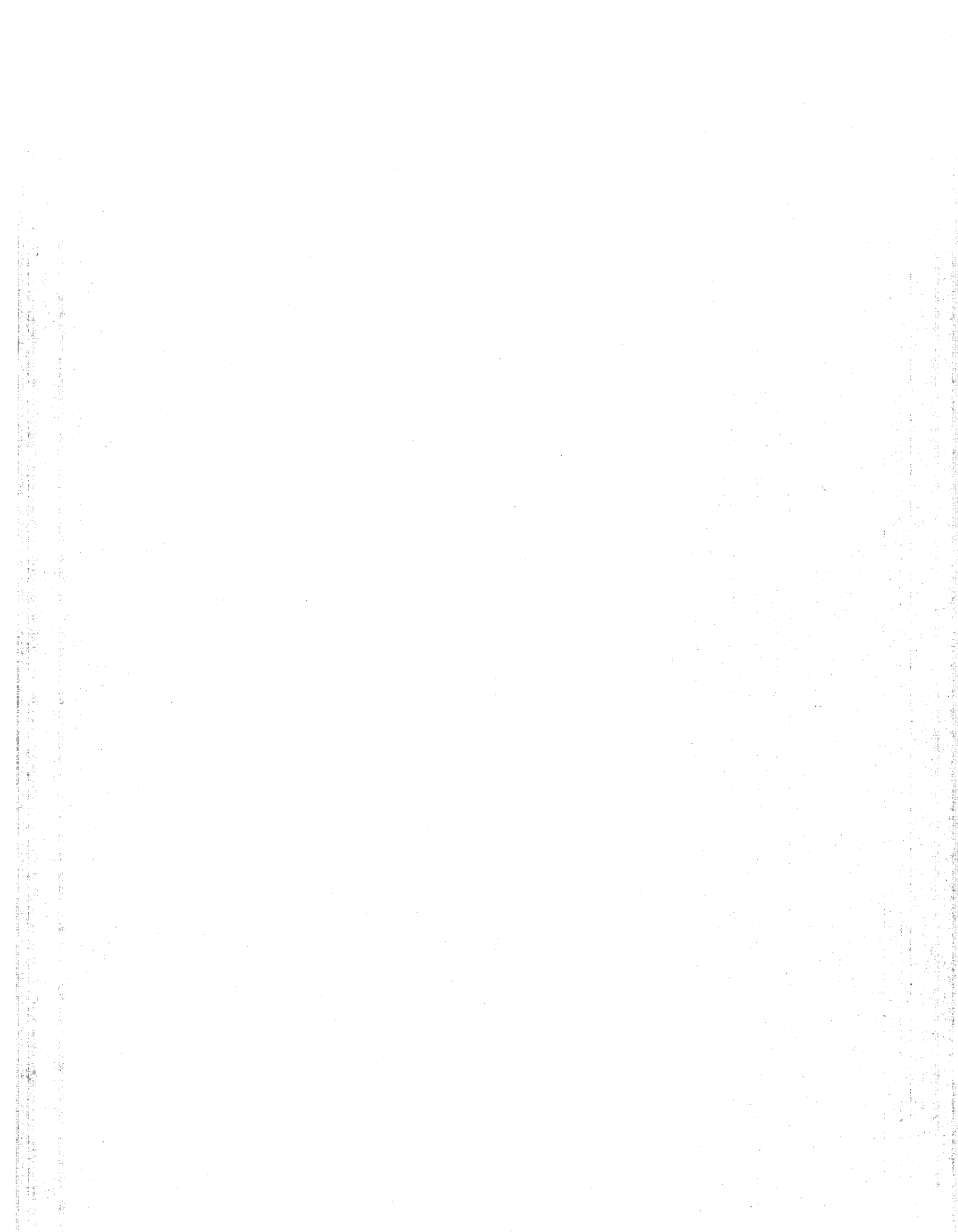
# AUDITOR GENERAL

*Value-for-Money Audit*

**PURCHASING IN SCHOOL DISTRICTS**

*Purchasing in Courtenay (#71) School District*









## Purchasing in School Districts

# *Purchasing in Courtenay (#71) School District*

### **Audit Purpose and Scope**

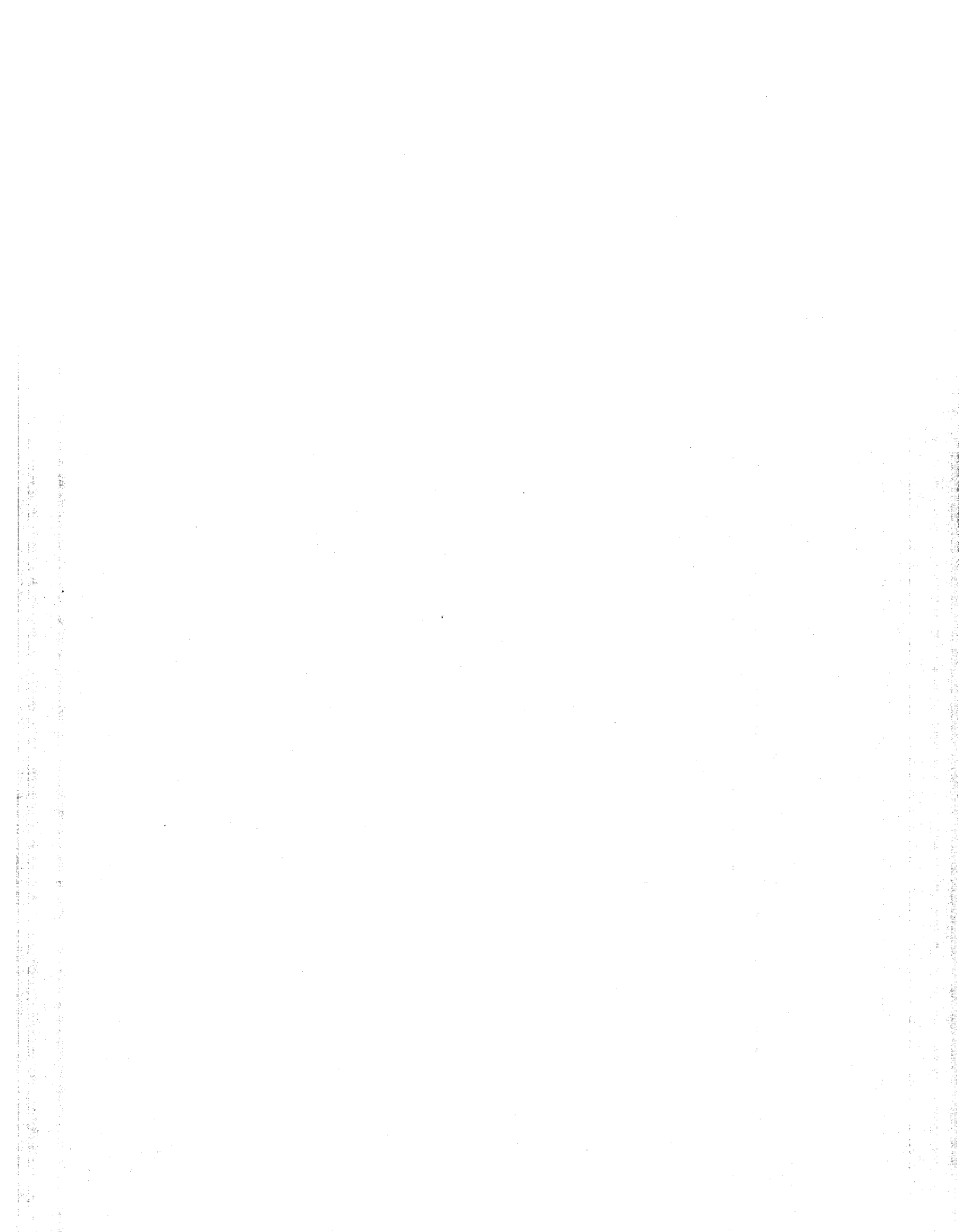
We conducted our audit to determine whether the purchasing methods of Courtenay school district ensure that the district is getting good value when acquiring supplies. Getting good value means obtaining the right goods to meet the specified need at the lowest overall cost, including the cost of acquiring the goods. Doing this requires that responsibilities be properly assigned, training be provided as necessary, performance be monitored, and sound purchase techniques be adopted. Furthermore, purchasing activities must be carried out with probity and suppliers must be treated equitably.

We focused our audit work on purchasing policies and processes in place in the district in the 1993/94 school year. We also looked at the history of a process when it helped us better understand the current situation. Our audit did not include an examination of whether the school district made good use of the materials it bought; we looked only at the ways the materials were acquired. Also, we did not examine the purchase of services.

### **Overall Conclusion**

Purchasing methods in Courtenay school district are sufficient to ensure that it is getting good value when acquiring supplies, that probity is encouraged, and that suppliers are treated equitably.







## Understanding Purchasing in Courtenay School District

School District #71 (Courtenay) is located on Vancouver Island, 219 kilometers northwest of Victoria, and serves Courtenay, Comox, Cumberland, and the surrounding area. There are about 9,500 students in the district in 16 elementary schools (Grades K-6), 4 middle schools (Grades 7-9), 2 secondary schools (Grades 10-12), and 2 alternative schools. The district will open a new elementary school in September 1994 and a new middle school in March 1995. School enrollments range from 94 to 1,340. To operate and support these schools in 1993/94, the district had an operating budget of \$50 million, mainly funded by the provincial Ministry of Education. The district's 551 full- and part-time teachers are supported by 46 principals and vice-principals and approximately 250 support staff, such as teaching assistants, clerical staff, custodians, maintenance workers, and district administrators.

Courtenay school district uses a system of school-based management: that is, each school is given a budgeted amount from which it must cover most of its non-salary costs, including goods purchases. Within district policies, schools have the flexibility to set their own priorities.

The district does not have specialized purchasing staff. Instead, school and district staff purchase materials as part of their regular duties. Principals have the authority to initiate requisitions, but the purchasing approval, accounting and payment for all transactions are the responsibility of the secretary-

treasurer's office. A wide-area computer network connects the district office and the schools, assisting both the schools and the district in reviewing purchase orders and monitoring the accounts.

The district centrally manages accounting, building maintenance, custodial services, and bus transportation. Purchasing for these areas is done by the managers responsible for them. The district also operates a central warehouse for maintenance and custodial supplies.

### *Major Purchase Streams in the District*

In the school districts we visited, we identified four main purchase streams: educational resources, educational commodities, educational equipment, and maintenance materials.

Educational resources include library materials, texts, and other learning resources. Educational commodities include paper and other stationery supplies, art supplies, physical education supplies, industrial education supplies, and science supplies. Educational equipment includes audio-visual equipment, furniture, computers, and photocopiers. Maintenance materials include maintenance supplies, janitorial supplies, and fuel.

Within the four main purchase streams, we found that purchasing in Courtenay school district takes the following forms:

### **Educational Resources**

The majority of purchases for texts and other learning resources are made by each school on an



individual basis. The titles to be bought are primarily the choice of staff in the school, although district committees give some guidance.

Funds for library resources are allocated on a per-student basis by the district. Schools can add money to the library budget if they choose to, but they are not allowed to delete money from the district's library allocation. School librarians are responsible for purchasing their school's library resources.

**Educational Commodities**

For paper products, the largest volume items purchased, the district compiles school requests annually and tenders the resulting bulk order. Other stationery supplies, art supplies, and physical education and science equipment are bulk-ordered annually by each school individually; minor purchases of these commodities are made throughout the year. Other commodities are purchased by the schools as needed.

**Educational Equipment**

District standards have been established for audio-visual equipment, furniture, and computers. The district maintains a central replacement fund and purchases replacement audio-visual equipment and furniture through this fund. School audio-visual requests are compiled by the district learning resources center manager into an annual bulk order. Furniture requests are similarly compiled and tendered on an annual basis by district personnel. There is also a central fund for the purchase of computers, and that purchase is

tendered annually by the district's instructional computer coordinator.

Photocopiers are purchased centrally. Machines are moved from school to school in the district in order to ensure maximum usage of all of them. For example, a school with a high-volume older machine may receive a new machine and the older machine be moved to a school with lower volume requirements.

**Maintenance Materials**

Both maintenance and custodial supplies are managed through a central warehouse. Two or three times a year, the maintenance department tenders a bulk order to restock central stores. In addition, maintenance staff use local purchase orders as needed for items not stocked in the warehouse. (At the time of our audit, the district was installing a computerized inventory system for the warehouse as part of its central administrative system.)

School requirements for custodial supplies are compiled annually by the district custodial supervisor and the resulting bulk order is then tendered. School janitors order supplies from the warehouse as required.

The maintenance department also buys fuel supplies for heating schools and running district vehicles. Fuel contracts are tendered every two years.

. . . . .

We have organized our report into four major sections: "Good Value in Purchasing"; "Probity in Purchasing"; "Equitable Treatment of



Suppliers"; and "Use of Local and Regional Suppliers." Where we think they would be helpful to the school district, we have included recommendations, even though the areas needing improvement are not

significant enough to affect our overall conclusion on the district's purchasing performance.



## Good Value in Purchasing

### Conclusion

In our opinion, the methods used by Courtenay school district for organizing its purchasing activities, gauging the performance of purchasing activities, planning its requirements, and managing its purchase transactions are sufficient to give it good value in purchasing.

### Findings

#### *Good Value Through Organization*

Purchasing is more apt to be carried out with economy if responsibilities for specific areas of purchasing are clearly laid out, and if management ensures that purchasers have the training and skills to carry out their assigned responsibilities.

#### *Assignment of Responsibility*

Overseeing purchasing activities is the responsibility of the secretary-treasurer. The secretary-treasurer and the central office managers are responsible for developing policy, controlling the issuance of purchase orders, and monitoring transactions through the district's wide-area computer network. In keeping with district policy, the secretary-treasurer has assigned much of the responsibility for day-to-day purchasing to the schools.

We found that the principals understand their responsibilities for purchasing. While they may delegate purchasing responsibilities to vice-principals, school secretaries, teachers, or department heads, only principals can authorize purchase requisitions initiated in their schools.

The purchase of maintenance and custodial supplies has been delegated to the management of the maintenance department of the district.

When joint buying for schools is beneficial, as for audio-visual equipment, paper, and furniture, the purchases are coordinated by district office staff. We found that these staff understand district policies and their responsibilities in carrying out these purchases.

#### *Needed Knowledge and Skills*

The district does not have professional purchasing staff. Staff who have been assigned purchasing responsibilities use district purchasing policies and procedures to guide them in their purchasing activities.

Specific training in purchasing is not given to staff. As a result, their level of knowledge is dependent on their experience and their understanding of the policies. We found through our interviews that staff are generally aware of, and follow, district purchasing policy. However, although school staff are all generally aware of how to obtain supplies, the techniques they use vary. For example, all the schools we visited in the district had supplier catalogues on hand, but not all staff knew how to find the best volume discounts on catalog purchases.

*Recommendation 1: The district should ensure that staff involved in purchasing understand district purchasing expectations and the various purchasing techniques available to them.*

### *Gauging Performance in Achieving Good Value*

Good management of purchasing requires that performance goals be set, that performance be judged against those goals, and that results be reported to those ultimately responsible—in school districts, the board of trustees.

#### **Setting Performance Goals and Judging Performance**

There are no formal performance goals established for purchasing within the district, although staff are expected to follow the district's purchasing policies.

There is also no formal measurement of the district's performance in purchasing. However, given the size of the district, senior administrators such as the secretary-treasurer and controller are able to control purchasing transactions of the schools by reviewing general performance and purchase orders. In overseeing purchasing, the district focuses mainly on the approval and accounting processes. Schools, department supervisors, and the accounts payable department ensure that orders are placed only by those authorized to do so. Principals, department supervisors, and district management scrutinize transactions in the accounts they have responsibility for, using the monthly reports they receive from the accounting department.

#### **Role of the Board of Trustees**

The board of trustees, when necessary, deals with vendor complaints that have not been resolved by district officials. Otherwise, the board has chosen not to be actively involved in purchasing

operations, but to set policy and let its senior managers manage. The secretary-treasurer, both directly and through the superintendent, is responsible to the board for financial and administrative activities, including purchasing.

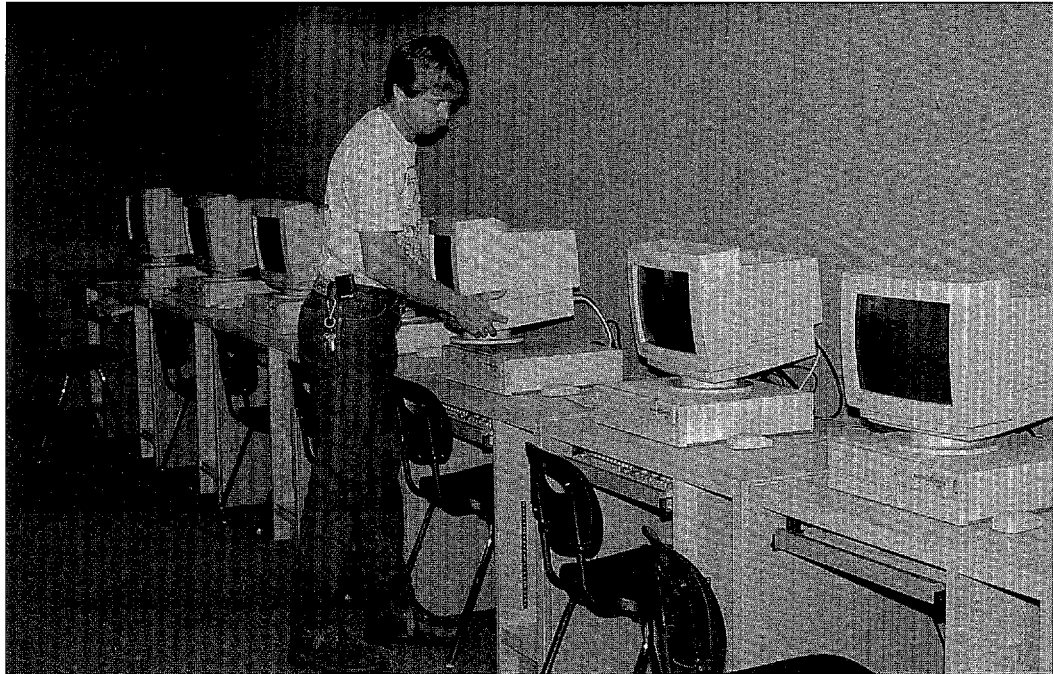
In all districts we visited, boards had delegated the responsibility for management, including management of purchasing, to their senior officials. However, in none of them did we find a systematic method by which officials reported to their board on their stewardship over purchasing.

#### *Good Value Through Requirements Planning*

Low-cost, occasional purchases may require nothing more than a phone call to a local retailer. More significant purchases, however, require planning and investigation. For bulk purchases, staff need to collect information on past use and project the likely demand for at least the next year. For strategic purchases, staff need to think about the future implications of purchase decisions, and to make sure those decisions fit with district plans. For purchases that are frequent or have maintenance or training implications, staff need to consider whether standardizing brands, models, or specifications would give best value for the district.

#### **Information on Past Use**

We found that information for bulk orders is collected appropriately, whether the orders are handled by district staff or by the schools directly. Before completing a bulk order for paper, central staff ask schools about their requirements for the upcoming year and about their



Courtesy of Courtenay (#71) School District

*Keeping up with improvements in computer technology is an ongoing task (Valley View Elementary School)*

thoughts on the quality of products used over the past year. A similar process is followed at the schools for the bulk acquisition of stationery, art supplies, and equipment for physical education and science. Bulk orders of janitorial supplies are based on annual requirement estimates from the schools and on a review of inventory levels in the warehouse. At the time of our audit, the maintenance department was installing an inventory management system for maintenance and custodial supplies, as part of the district's wide-area computer network. With this system, when warehouse stocks reach a minimum level, a purchase requisition will automatically be generated by the computer.

### Planning

In the school districts we visited, three aspects of planning had important implications for

purchasing: the integration of technologies such as microcomputers into the schools, the opening of new schools, and the management of textbooks, other learning resources, and library resources.

The district instructional computer coordinator, in conjunction with the district technical advisory committee, has developed a five-year computer purchase plan for allocation of school computers. The committee has representation from school and district administration. The plan is annually reviewed for approval by senior management. Once the plan is approved, the instructional computer coordinator purchases the computers by tender.

Principals of new schools are responsible for equipment purchasing in their schools, from allocating the budget to completing the purchase requisitions. The district supports this process by





providing the principals with lists of suppliers and up to three months of full-time administrative and secretarial assistance.

In planning the opening of two new schools, the secretary-treasurer and the principals of the new schools visited Chilliwack (#33) School District, which had recently equipped several new schools. They also obtained a copy of Coquitlam (#43) School District's database on the purchasing requirements for new schools, to use in determining the requirements for their own new schools.

District management allocates funds for texts and other learning resources among the schools, based on the requirements of the district as a whole. Each school's principal, working with department heads and teachers, then determines the school's priorities and how it will use its allocation.

Records of library resources in the district are currently maintained by the schools. Records pertaining to texts and other learning resources, however, are maintained on an ad hoc basis, with some schools having systematic methods of keeping inventory and others having no current records at all. As part of its wide-area computer network, the district is implementing a library management system which will be used for managing both classroom learning resources and library resources in all schools. Texts and other learning resources should be on-line within the next year, and cataloging of library resources on the system should be complete within two years. With this system, schools will be able to review each other's inventory easily and, where possible,

borrow rather than buy learning and library resources. Schools already exchange information by electronic mail on what they have and what they need, and loan out their surplus resources.

#### **Standardization**

The district has appropriate processes for standardizing products where doing so is beneficial. The district has developed purchasing standards for furniture, audio-visual equipment, computers, and janitorial supplies. It reviews these standards on a regular basis as new products are introduced to the market.

#### *Good Value Through Managing the Purchase Transaction*

Choosing what to buy is not the final step in purchasing economically. How the purchase transaction is carried out also affects the total cost. For example, a district may be able to make savings by using competitive tendering or by making purchases in cooperation with other districts. The measure of a district's success in this area is whether it can choose methods of supply that minimize the cost of goods acquired, including the cost of acquiring them.

#### **Competitive Tendering**

District policy states that quotations from a minimum of three suppliers must be obtained for individual items costing over \$300 or groups of items costing over \$500. We found the district's purchasing practices to be in line with policy.

Overall, district staff maintain good records of the competitive tendering process. For most major purchases we examined, it was clear from the purchasing file who the



tender had been sent to and how the evaluation and awards were made. However, incomplete documentation for computer and photocopier acquisitions made it difficult for us to determine the basis, and thus the appropriateness, of these awards. The district needs to make sure that purchasers maintain good documentation of purchase decisions. This will help the district both in reviewing major spending decisions and in planning future purchases.

#### **Precise Contract Terms**

The tender form the district uses has standard clauses outlining the district's terms. Some aspects of the standard tender, however, do not reflect actual practice. For example, although the form implies that awards will be based on price, we found instances where the low bid was not accepted because of concerns over the quality and reliability of the product. These criteria are not included in the tender. We think the district should see that the evaluation criteria stated on the tender form reflect the district's actual practice, to avoid possible supplier disputes.

In addition to evaluation criteria, having a more complete set of standard clauses would, we believe, benefit the district in several ways. First, a set of clauses covering the most likely contracting situations would guide staff in carrying out purchases and remind them to address all the areas that have to be covered in a contract. Second, drawing from a set of standard clauses would allow all district staff arranging purchase contracts to do so with the same level of skill and completeness. Finally, having a set of standard clauses available would

likely reduce the time required to draft bid documents.

We are not suggesting that purchasing become rigid and bureaucratic, just that an organized approach to developing purchase contracts be adopted. Since they purchase in similar markets, we believe that Courtenay and other school districts could save money by jointly developing standard contract language. A joint buying group in the lower Mainland, one of whose members is Langley school district, has been developing such standard language. Their experience may be helpful to other school districts.

*Recommendation 2: Courtenay school district, perhaps working in concert with other districts, should develop a complete set of standard clauses to include in its purchasing documents.*

#### **Bulk Buying**

The district makes bulk purchases where there are obvious cost-savings (as in paper, furniture, and heating fuel), where choices are made centrally because of special expertise (as with audio-visual equipment), or where there is an interest at a strategic level in the item (as in computers and photocopiers). Bulk purchases are also made for items stored and distributed centrally, such as custodial and maintenance supplies.

For replacement audio-visual equipment and furniture bought through the district, schools are provided with standard lists to choose from. Their requirements are then compiled by central staff into a yearly bulk order.

The majority of texts and other learning resources are purchased by



Courtesy of Courtenay (#71) School District

School secretaries initiate requisitions through the district's wide-area computer network (Valley View Elementary School)

each school, rather than being compiled into bulk orders by publisher at the district level. Other districts we visited compiled texts and learning resources at the district level to take advantage of volume discounts from publishers.

*Recommendation 3: The district should review the costs and benefits of compiling school text orders into district-wide bulk orders, particularly where a standard text has been chosen for the district.*

#### Ad Hoc Purchases

Minor purchases, such as those for repair items, occur throughout the year and are usually made from a small number of suppliers. However, the district does not receive discounts from all suppliers with whom it does a substantial volume of business.

*Recommendation 4: The district should endeavor to negotiate standard discounts with all suppliers from whom it makes frequent purchases.*

#### Cooperative Purchasing

The district shares pricing information with other districts and allows them to "piggyback" on its audio-visual equipment orders. It also has an informal network of similar-sized districts with which it shares purchasing information.

The Courtenay school district does not, however, actively seek out opportunities for joint purchasing. This district, like most we visited, finds few perceived advantages in making joint purchases with other school districts or local agencies. The time and effort needed to coordinate such purchases, and the need to change district standards sometimes in order to buy jointly, are seen by district staff as obstacles making cooperative purchasing more trouble than it is worth.

On the other hand, transactions that individually have only a small payoff for each district may, taken together, significantly benefit the province as a whole. For example,



we were told that buying textbooks in bulk can result in savings of up to 20%. Districts may be able to achieve these savings by combining their secondary textbook orders with their neighbors' to gain sufficient volume. We believe that in many cases the extra cost of, say, having to coordinate deliveries in a number of districts would be more than offset by the public benefit.

*Recommendation 5: Senior management of the district, with their counterparts in other districts or other public bodies, should examine the benefits of cooperative purchasing and, where possible, reduce obstacles preventing its use.*

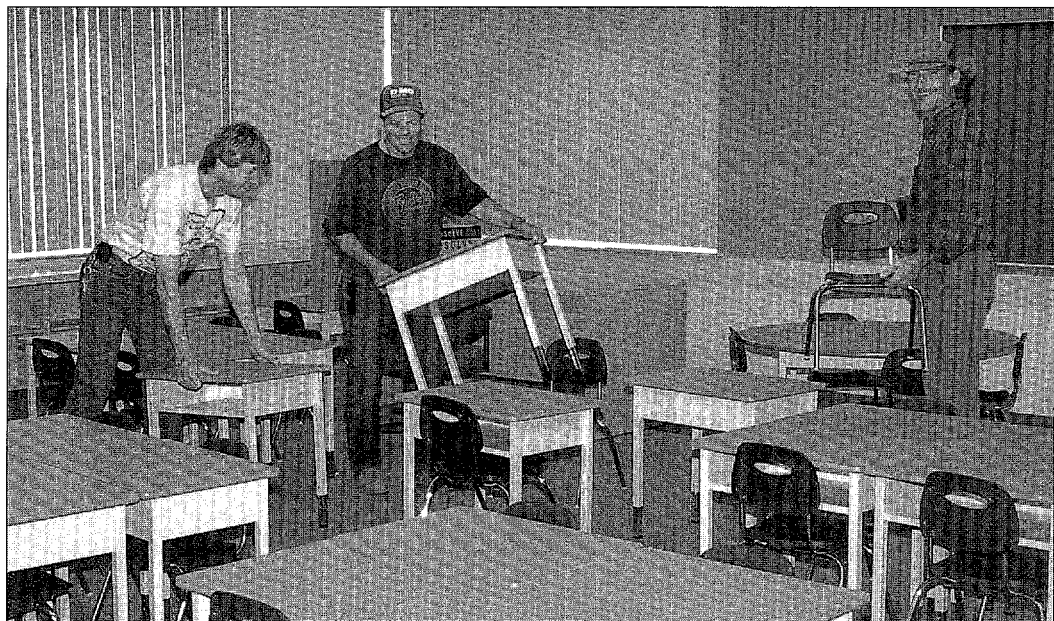
#### **Warehousing Materials for Economy**

The district has two small warehouses, one for paper and one for maintenance and custodial supplies. Recently, it improved the operations of the maintenance warehouse. Staff completed a count of all materials stocked in the warehouse and reviewed what items to continue stocking. An item will be

stocked only if it is not available locally, its cost is reasonable, and it is essential to the continued operation of schools.

However, the district has not carried out a formal cost and benefit study of the warehouse itself. Such periodic scrutiny is necessary because there are, increasingly, cost-effective alternatives to operating one's own warehouse. For example, one district we visited had arranged for its photocopy paper supplier to warehouse that paper. Schools ordered directly from the supplier as needed; the district still received a discount based on its estimated annual purchases. In another district, storage of photocopy paper, as well as its delivery to schools as needed, was contracted to a private company.

*Recommendation 6: The district should periodically examine the cost-effectiveness of its warehouse.*



*Classroom furniture is one important purchase in equipping a new school (Valley View School)*

Courtesy of Courtenay (#71) School District



## Probity in Purchasing

When purchasing is carried out with public funds, there is an expectation that it will be done with probity—that is, honesty in fact and in appearance. Policies and procedures should therefore be designed with this goal in mind, and management should convey to employees that ethical values cannot be compromised.

### Conclusion

Although probity is not formally addressed in the district's policies, it is encouraged by the district's general management controls and the attitudes of its employees.

### Findings

Essentially, probity is an attitude rather than a policy or procedure. The corporate culture generally, and the example set by management specifically, are key to whether business is carried out honestly and with sound stewardship. In Courtenay school district, as in the others visited, we felt that the management and staff we interviewed shared a common attitude, namely, that the focus of their job was service to the district.

The district does not have formal policies on conflict of interest or other probity issues. We think that such guidance is particularly important to have when purchasing

is delegated to staff who are not purchasing specialists. Confidence in public purchasing rests partly on appearance, and clear policies are a signal that probity is taken seriously. Staff need to know what the district's expectations are so that they do not inadvertently find themselves damaging the public's perception of the district. An issue such as conflict of interest, for example, can have a wide range of definition. Are employees in conflict if they sell goods to the district? Does it matter whether they can influence the buying decision? What about sales by their friends or family? Clear policies on this and other such issues would aid both the reality and the appearance of probity.

*Recommendation 7: The district should document its policies related to probity so that staff and the public fully understand the district's expectations.*

Policies designed to encourage good value also encourage probity. For example, district policy requires competitive tendering for most major purchases. Competitive tendering puts purchase transactions under a spotlight, exposed to the scrutiny of district staff and interested suppliers.

The district does not monitor the probity of purchase transactions specifically, but encourages it by controlling and monitoring all transactions. For example, the



district has formal management controls over the events surrounding the purchase decision. These controls ensure that those who initiate or approve transactions are authorized to do so, that purchase transactions are charged to the appropriate accounts, and that accounts have sufficient funds to

cover the purchase. Although these management controls were outside the scope of our audit, nothing we found during our audit gave us cause for concern about them.





## Equitable Treatment of Suppliers

Purchasers in the public sector are expected not to show any supplier favoritism. Who gets an opportunity to bid, how products are specified, how bids are responded to, and how the winning bid is chosen all affect how equitably suppliers are treated.

### Conclusion

The district's purchasing methods are sufficient to ensure that suppliers are treated equitably.

### Findings

Although it is not addressed in policy, staff involved in purchasing are expected to ensure that competition for the district's business is maximized. The district is open to the addition of vendors to its supplier list; they are added to the lists as staff are made aware of them or of new products handled by them. On the larger tendered orders for furniture, paper, and audio-visual

equipment, we found that a reasonable number of requests to bid were sent to eligible suppliers.

The district's product specifications do not unduly restrict suppliers' opportunities to bid. For most products, district standards are based on features rather than brand names. Where brand names are specified, alternatives will also be accepted if they prove, on testing, to be equivalent in performance.

The district has a reasonable approach to receiving bids, responding to them, and selecting the winner from among eligible bidders. For most bulk buys, we found that computerized spreadsheets outlining the bids and suppliers are being used to assist staff in evaluating the bids. The district, on request, will tell a supplier why it did not win the bid.





## Use of Local and Regional Suppliers

Governments sometimes use their purchasing power to achieve economic or social goals such as encouraging local industries. Although such choices are more common at the provincial or national level, we looked to see whether this school district had such policies and, if so, how well it carried them out.

### Conclusion

District practice encourages the use of local suppliers whenever they are competitive with outsiders on price and quality.

### Findings

Although the district does not have a formal policy of promoting

buying from local suppliers, purchasers are sensitive to local suppliers and ensure that they are given every opportunity to supply goods to the district, within the paramount consideration of obtaining the best value for the taxpayers' dollar.

For larger tenders, local firms are encouraged to bid. However, they are given no special preference; the winning bid is chosen based on the lowest overall cost, taking into consideration quality and service.





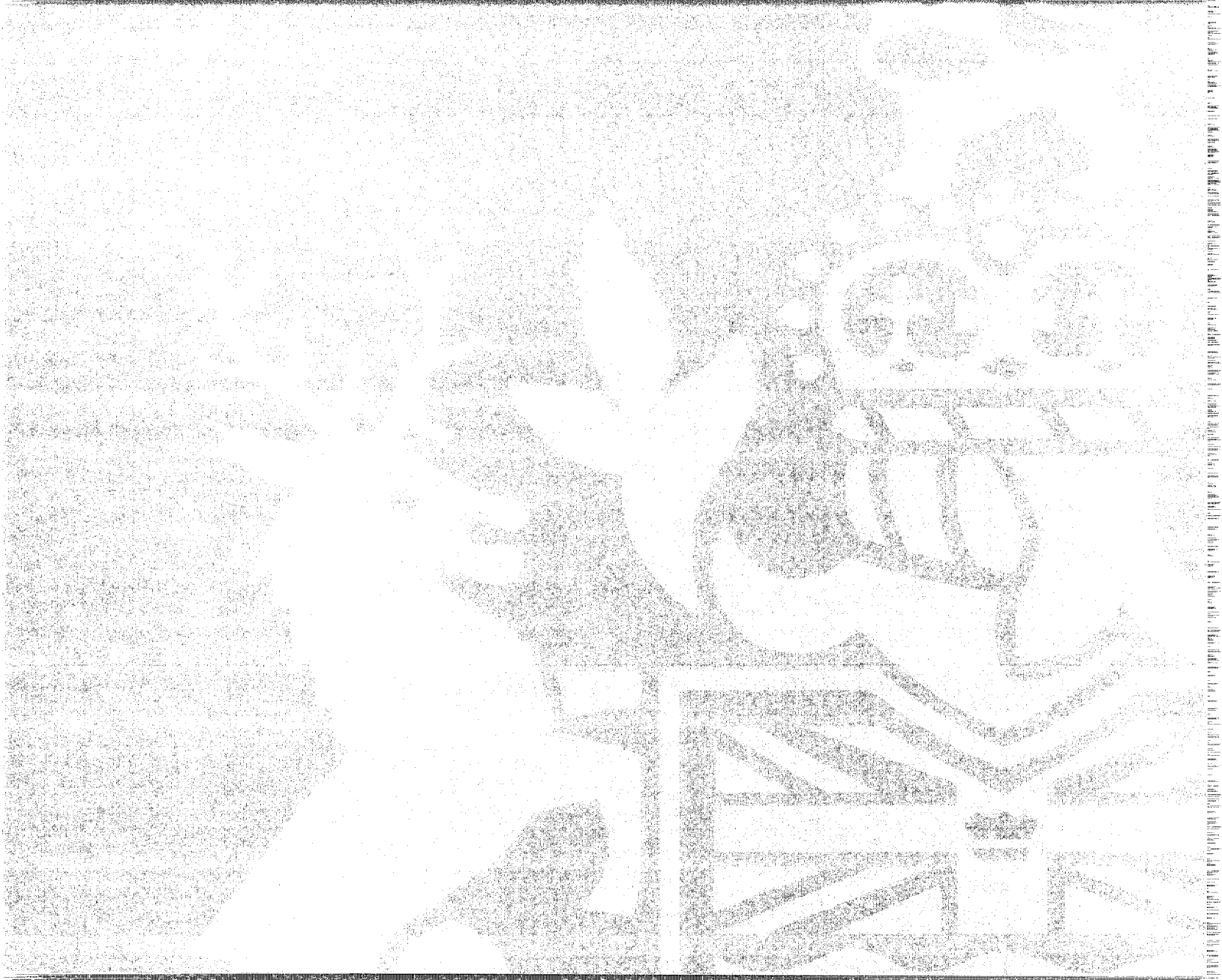
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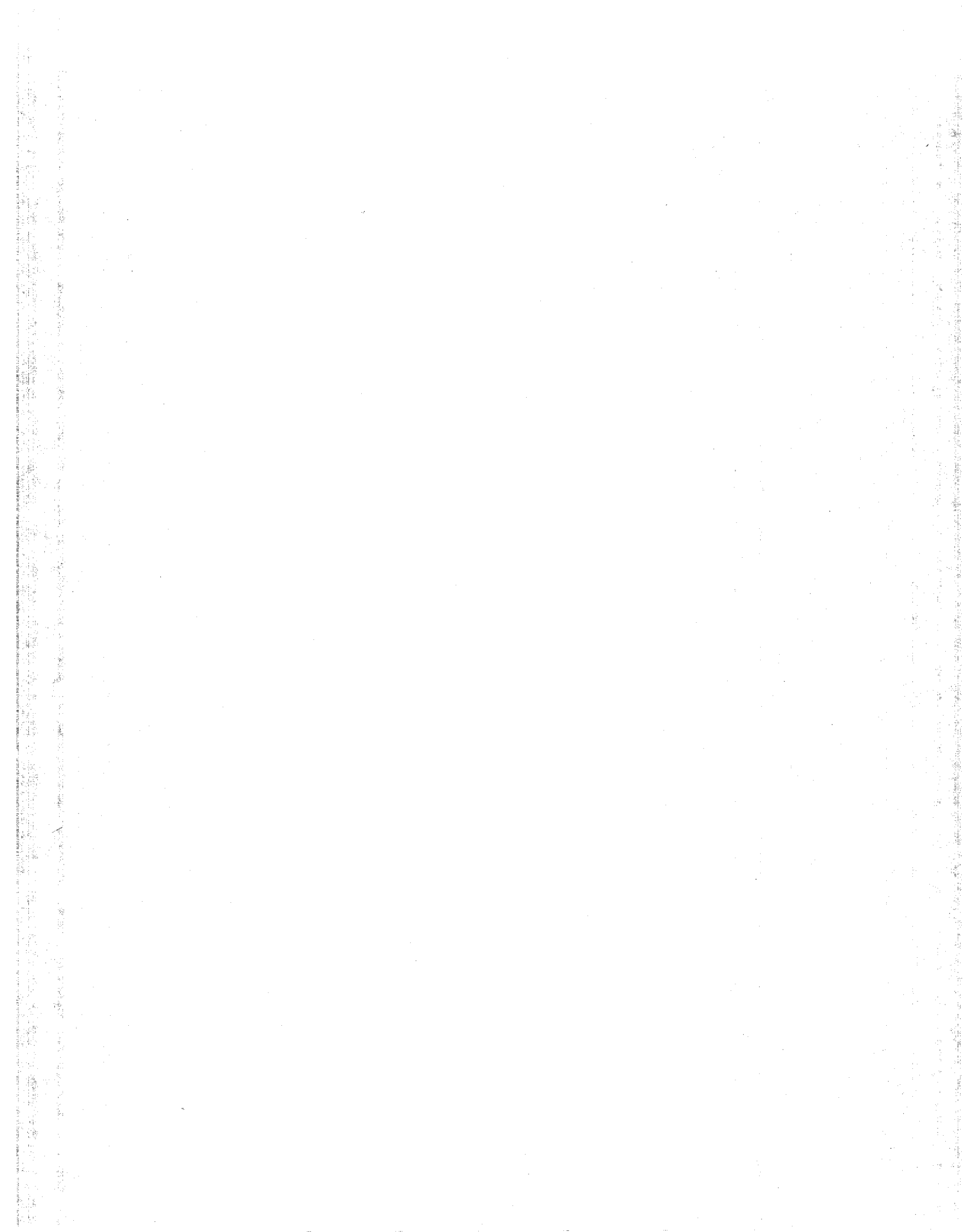
*Value-for-Money Audit*

**PURCHASING IN SCHOOL DISTRICTS**

*Purchasing in Kamloops (#24) School District*

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## Purchasing in School Districts

# *Purchasing in Kamloops (#24) School District*

### **Audit Purpose and Scope**

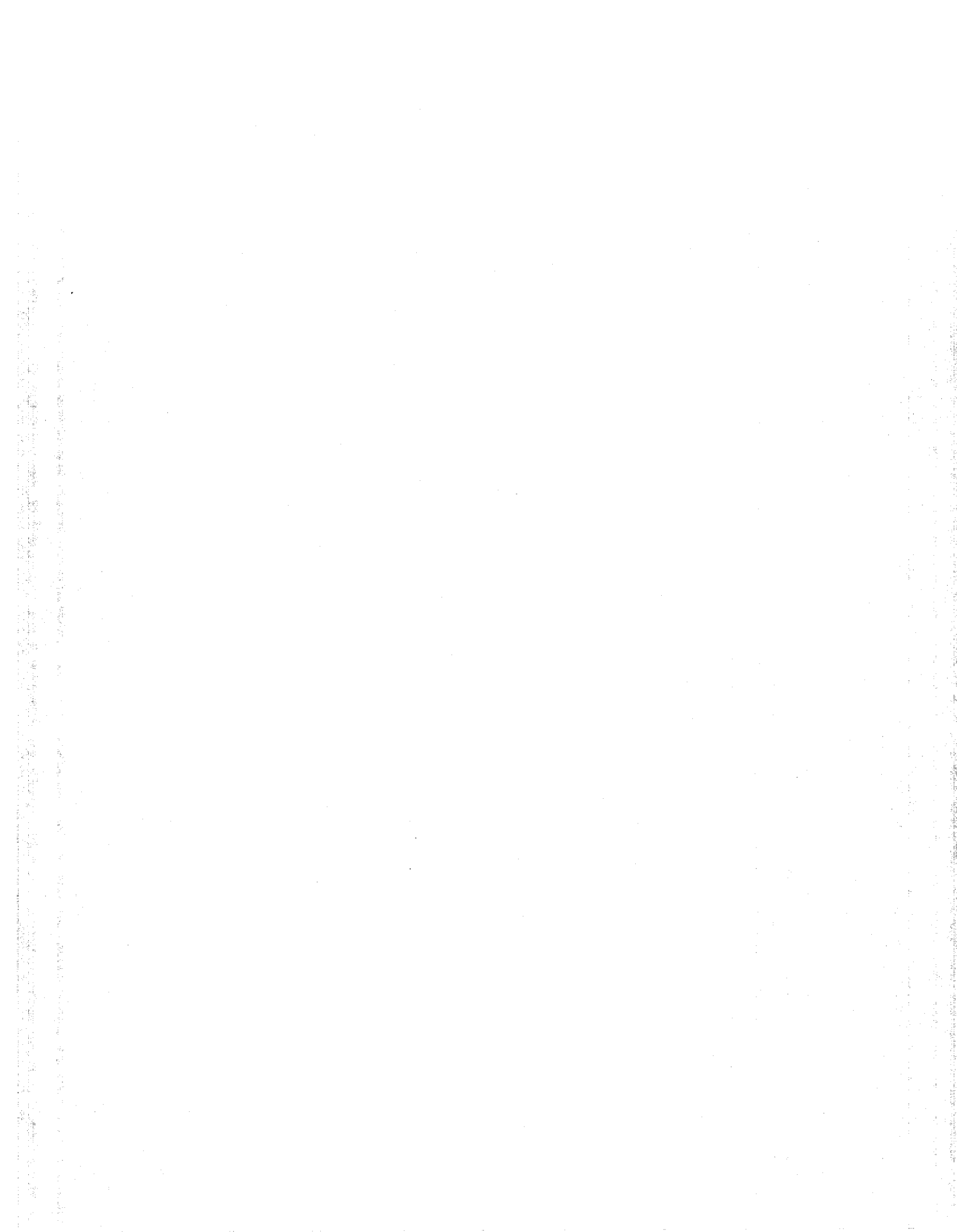
We conducted our audit to determine whether the purchasing methods of Kamloops school district ensure that the district is getting good value when acquiring supplies. Getting good value means obtaining the right goods to meet the specified need at the lowest overall cost, including the cost of acquiring the goods. Doing this requires that responsibilities be properly assigned, training be provided as necessary, performance be monitored, and sound purchase techniques be adopted. Furthermore, purchasing activities must be carried out with probity and suppliers must be treated equitably.

We focused our audit work on purchasing policies and processes in place in the district in the 1993/94 school year. We also looked at the history of a process when it helped us better understand the current situation. Our audit did not include an examination of whether the school district made good use of the materials it bought; we looked only at the ways the materials were acquired. Also, we did not examine the purchase of services.

### **Overall Conclusion**

Kamloops school district carries out, controls, and monitors its purchasing activities using methods that are sufficient to ensure that these activities are carried out with probity and that suppliers are generally treated equitably. However, they are not sufficient to ensure that the district always gets good value when acquiring supplies.







## Understanding Purchasing in Kamloops School District

School District #24 (Kamloops) serves Kamloops, Chase, Barriere, Logan Lake, and the surrounding area. There are about 16,300 students in the district in 41 elementary schools (Grades K-7), 1 elementary-secondary school (Grades K-12), 3 junior secondary schools (Grades 8-10), 5 secondary schools (Grades 8-12), and 1 senior secondary school (Grades 11-12), with enrollments ranging from 10 to 1,125. The district's 956 full- and part-time teachers are supported by 74 principals and vice-principals, who also have teaching responsibilities, and approximately 400 district support staff, such as teaching assistants, clerical staff, custodians, maintenance workers, and district administrators. To operate and support these schools in 1993/94, the district had an operating budget of \$91 million, mainly funded by the provincial Ministry of Education.

Nearly all purchases for schools are made on their behalf by the district's central purchasing department. The district also operates a central warehouse that supplies district schools, as well as a number of other public and non-profit agencies, with stationery and other supplies.

### *Major Purchase Streams in the District*

In the school districts we visited, we identified four main purchase streams: educational resources, educational commodities, educational equipment, and maintenance materials.

Educational resources include library materials, texts, and other

learning resources. Educational commodities include paper and other stationery supplies, art supplies, physical education supplies, industrial education supplies, and science supplies. Educational equipment includes audio-visual equipment, furniture, computers, and photocopiers. Maintenance materials include maintenance supplies, janitorial supplies, and fuel.

Within the four main purchase streams, we found that purchasing in Kamloops school district takes the following forms:

### **Educational Resources**

Each school is given a budgeted amount annually for purchasing textbooks and other learning resources. The titles to be bought are primarily the choice of staff in the school, although district committees give some guidance. The purchasing department buys the materials for the school, as and when requested; there is no bulk buying of learning resources.

Library materials are managed similarly. Librarians send requisitions to the purchasing department, which buys the resources.

### **Educational Commodities**

Paper and other stationery supplies are bought in bulk by the purchasing department and distributed through the central warehouse. Schools send in requisitions to the central warehouse and their orders are delivered by the district courier service.



The central warehouse also stocks standard supplies for elementary students. Parents pay a yearly fee to their child's school, and the school supplies the child with pencils, notebooks, and whatever else is needed. The school in turn requisitions these supplies from the central warehouse.

**Educational Equipment**

The district has a standard catalog of audio-visual equipment, from which the schools can order through the purchasing department. Depending on the item, the department will fill the order from the central warehouse or from a supplier.

For computers, a district technology committee sets standards and specifies acceptable brands and models. The purchasing department then buys the computers on behalf of the schools. Photocopiers are leased by the district and allocated to the school; a request-for-proposal process, involving a committee of principals and other district staff, is

used periodically to choose a supplier. Furniture is bought as needed, through the purchasing department.

**Maintenance Materials**

Custodial equipment and supplies are bought in bulk by the purchasing department, in consultation with the manager of custodial operations, and distributed through the central warehouse. The purchasing department tenders supply contracts for vehicle and heating fuel. Most maintenance supplies are purchased as needed, by maintenance workers buying directly from suppliers.

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We have organized our report into four major sections: "Good Value in Purchasing"; "Probity in Purchasing"; "Equitable Treatment of Suppliers"; and "Use of Local and Regional Suppliers."





## Good Value in Purchasing

### Conclusion

In our opinion, the methods used by Kamloops school district for purchasing are not sufficient to ensure that it always gets good value, because of the district's weaknesses in:

- deciding who makes purchasing decisions;
- monitoring how well purchasing is done;
- giving the purchasing department adequate technical support;
- using competitive tendering effectively; and
- defining contract terms.

### Findings

#### *Good Value Through Organization*

Purchasing is more apt to be carried out with economy if responsibilities for specific areas of purchasing are clearly laid out, and if management ensures that purchasers have the training and skills to carry out their assigned responsibilities.

#### *Assignment of Responsibility*

In our opinion, the assignment of responsibility for purchasing decisions is unclear and contradictory. This lack of clarity can lead to inefficiency through duplication of effort between schools and purchasing staff.

In our interviews with staff in the district, we found two contrasting views expressed; both views are reflected in the district's written policies. School staff in general saw the function of the

purchasing department as being primarily a service provider, with schools having a significant role in purchase decisions affecting them. The relevant policy states that each principal "is responsible for the operation of the school as a business institution as well as an educational one, working in close cooperation with the Secretary-Treasurer and his officials." This is in keeping with the district's clear (although not formally stated) orientation toward school-based management.

In contrast, district staff in general saw the purchasing department as a control agency, with schools having only a limited role in purchase decisions affecting them. Policies supporting this view imply that schools are allowed only limited freedom in spending the funds allocated to them. For example, one policy states that all purchases of goods "shall be directed through the School District Purchasing Department." The only flexibility given to schools is in another policy: they "may purchase miscellaneous items" (not further defined) on their own, and may spend school-raised funds at the principals' discretion.

This ambivalence about how principals are to exercise their responsibility for their schools' business operations is notably different from the relative freedom given maintenance employees. In the course of their duties, the latter can make purchases of up to \$2,000 without going through the purchasing department.

*Recommendation 1: The district should ensure that responsibilities for*



*purchasing activities are clearly assigned, understood, and accepted by staff.*

#### **Needed Knowledge and Skills**

The district has not formally defined the skills and knowledge it requires its purchasing staff to have. For example, it does not require purchasing staff to maintain and upgrade their knowledge of professional purchasing techniques and issues. However, purchasing staff have had long experience in their positions, so formal training may not be essential.

A more surprising omission related to skills and knowledge is that the district has not supplied purchasing staff with microcomputers to help them carry out their work, nor with training in microcomputer use. In our opinion, supplying the department with this equipment and training could be easily justified by the time savings and quality improvements achievable simply from the use of spreadsheet software to collate and analyze tenders and bulk orders.

*Recommendation 2: The district should supply its purchasing staff with the appropriate computer hardware, software, and training to allow them to maximize their efficiency.*

#### **Gauging Performance in Achieving Good Value**

Good management of purchasing requires that performance goals be set, that performance be judged against those goals, and that results be reported to those ultimately responsible—in school districts, the board of trustees.

#### **Setting Performance Goals and Judging Performance**

The district has not set formal performance goals for its purchasing department or for other staff when they are involved in purchasing. We concluded that informal expectations are inadequate because they vary so much, as discussed previously in the section on “Assignment of Responsibility.”

Also lacking is any formal evaluation of purchasing performance. For example, no measures are taken of speed of service, or of user satisfaction with the service or performance of the purchasing department. We had expected Kamloops, a large school district with a professional purchasing department, to have developed effective ways for gauging its purchasing performance in order to find out where inefficiencies lie and where process improvements would pay off.

*Recommendation 3: The district should set goals for the purchasing function and develop appropriate measures for seeing if these goals are met.*

#### **Role of the Board of Trustees**

When necessary, the board of trustees participates in major purchase decisions or adjudicates a complaint from a dissatisfied supplier. Otherwise, the board has chosen not to be actively involved in purchasing operations, but to set policy and let its senior managers manage. The secretary-treasurer, both directly and through the superintendent, is responsible to the





board for financial and administrative activities, including those of the central purchasing department.

In all districts we visited, boards had delegated responsibility for management, including management of purchasing, to their senior officials. However, in none of them did we find a systematic method by which officials reported to their board on their stewardship over purchasing.

### *Good Value Through Requirements Planning*

Low-cost, occasional purchases may require nothing more than a phone call to a local retailer. More significant purchases, however, require planning and investigation. For bulk purchases, staff need to collect information on past use and project the likely demand for at least the next year. For strategic purchases, staff need to think about the future implications of purchase decisions and to make sure those decisions fit with district plans. For purchases that are frequent or have maintenance or training implications, staff need to consider whether standardizing brands, models, or specifications would give best value for the district.

### **Information on Past Use**

For purchases made through the purchasing department, the district collects appropriate information on past purchasing patterns and reflects it in current purchasing. This process is automated for goods distributed from the central warehouse, as the district's computerized warehouse management system accumulates information on past use and current stocks.

### **Planning**

In the school districts we visited, three aspects of planning had important implications for purchasing: the integration of technologies such as microcomputers into the schools, the opening of new schools, and the management of textbooks, other learning resources, and library resources.

Kamloops district has a technology committee that develops standards for microcomputers and strategic goals for their use, and then details what equipment is needed.

At the time of our audit visit, the district did not have any new schools needing equipping. However, we understand that it is developing a manual to guide principals who have been assigned responsibility for opening new schools. The manual will reflect experience gained during recent school openings.

Schools decide individually what textbooks and other learning resources, and library materials, they will buy. To aid them in this, most schools take inventory of their textbooks and other learning resources yearly, although inventory information on older, little-used materials may not always be updated annually. Also, there appears to be variation in the extent to which schools track missing texts and ensure that students return all the texts issued to them.

The ability of schools to manage their library resources has been aided by the district's strategic plan for technology, under which it has provided schools with the equipment and software needed to computerize cataloging and



checkout in their libraries. As well, many larger schools have installed electronic security systems in their libraries to minimize book losses.

#### Standardization

The district generally has appropriate methods for setting standards and specifications for commonly used products. When buying custodial supplies, for example, it specifies the performance it expects but avoids setting specifications that limit it to one supplier. If a vendor proposes a lower-cost substitute, the district will test it and change to the new product if the tests are successful. Schools are informed of standard products in the central warehouse through a catalog that the purchasing department produces.

We encountered one instance of there being a significant dispute about a standard product: student chairs. The maintenance department, which bears the cost of repairing chairs, decided to standardize on chairs with a one-piece back and seat. These, it found, had lower repair costs. The actual users of the chairs—the schools—objected: they found that one-piece chairs were harder to stack on tables, which makes the cleaning of classrooms more difficult. We believe this dispute is a symptom of the unclear mandates discussed under “Assignment of Responsibility,” above.

#### *Good Value Through Managing the Purchase Transaction*

Choosing what to buy is not the final step in purchasing economically. How the purchase transaction is carried out also affects the total cost. For example, a district

may be able to make savings by using competitive tendering or by making purchases in cooperation with other districts. The measure of a district’s success in this area is whether it can choose methods of supply that minimize the cost of goods acquired, including the cost of acquiring them.

#### Competitive Tendering

District policy requires that all purchases over \$10,000 be competitively tendered. We found that in most cases the purchasing department used competitive tendering appropriately. However, we had concerns about one large transaction we examined—a request for proposal for replacing the district’s 55 photocopiers, a transaction costing over \$200,000 a year. It did not, in our opinion, give sufficient attention to cost in three areas:

- in the analysis of needs: The list of features needed on the photocopiers was developed from a survey that asked schools what features they wanted, but without a discussion of cost tradeoffs. Photocopier users were then divided into three groups (later reduced to two) based on their volume of use, but with similar features required for each group. As a result, for even the lowest-volume user, producing only about 1,000 copies a month, the district called for a machine able to produce 10,000 copies a month, with automatic double-sided copying and automatic selection among three sizes of paper.
- in the analysis of vendor proposals: Although the call for proposals gave much detail on the features needed on the machines,



cost constraints were not mentioned. Only after proposals were in did the district reject most of them because they exceeded an unannounced price ceiling. This selection approach led to the district choosing the lowest-price machine with all the desired features. We believe that attention should more appropriately have been focused on getting the best tradeoff between price and features. (For example, some schools might have preferred a machine with few features but a low cost, and used the money saved to meet higher priority educational needs.)

- in the analysis of financial options (including renting the machines with no ownership interest, leasing them and taking ownership at the end of the lease term, or buying them outright): District staff gave us conflicting information on what the district's preferences were and the rationale behind them. Leases and rentals were not clearly distinguished in the analysis of proposals. Furthermore, when vendors offered both three- and five- year lease terms, district staff did not appropriately recognize the differences these options made to the lifetime cost or discounted cost of the transaction. Instead, they simply compared the yearly payments, choosing the longer lease term on that basis.

*Recommendation 4: The district should examine the cost-effectiveness of its present process for acquiring photocopiers.*

When reviewing transactions to understand the district's competitive

tendering practices, we were usually able to obtain sufficient information to answer our questions about the transactions, but only by interviewing the purchasing staff involved. This was necessary because we often had difficulty in determining from the district's files how purchase decisions had been made. It was not always clear how the options presented by each vendor were weighed or what the reasons were for selecting the winner, nor was the relevant information in one place.

On significant transactions especially, these weaknesses in record-keeping have the potential to cause difficulties. It is hard for management to review a decision if key information is not available in an organized form. If a decision is being disputed, it is particularly important that senior staff be able to inform themselves quickly of the key elements of the decision. Also, purchasing staff cannot easily build upon past experience if they must rely solely on the memories of those involved in past transactions.

*Recommendation 5: The district should ensure that major purchase decisions are documented in a consistent and easily accessible way.*

#### **Precise Contract Terms**

We reviewed a selection of tendered purchases to see how clearly the district set out its contract terms. We found that terms such as those for delivery and payment were not stated completely and consistently in district contract documents. The district has a one-page form titled "Terms, Conditions and Instructions of Purchase," but this does not address important



topics such as the basis of choice used by the district in selecting tenders. Furthermore, we noted that the standard form was not part of the tender documents for several of the purchases we examined.

We also noted that the district sometimes allowed the supplier to propose contract terms, such as the period during which prices would remain fixed. Of four bidders on a bulk paper order, for example, two offered firm prices for four months, one for two months, and one for no fixed period. These differences in terms make it difficult for the district to compare tenders objectively.

We believe that developing and consistently using a complete set of standard contract clauses in its tenders would benefit the district, saving it time in drafting bid documents and ensuring that its requirements are clearly stated.

We are not suggesting that purchasing become rigid and bureaucratic, just that an organized approach to developing purchase contracts be adopted. We found similar contract weaknesses in most of the districts we visited, and believe that districts could save money by jointly developing standard contract language.

*Recommendation 6: Kamloops school district, perhaps working in concert with other districts, should develop a complete set of standard clauses to include in its purchasing documents.*

### **Bulk Buying**

The purchasing department makes extensive use of bulk buying, not just for stocking the warehouse but also for carrying out yearly bulk purchases of supplies and equipment

for subjects such as industrial education. The maintenance department, working through the purchasing department, also bulk-buys commodities that it uses frequently, such as heating and vehicle fuel.

Schools buy the majority of their textbooks and other learning resources in one or two purchases a year, so, to that extent, orders are bulked at the level of the school. However, these orders are then processed individually by the purchasing department. We believe there is potential for more use of bulk buying in the purchasing of learning resources.

We realize that bulk buying is subsidiary to the larger issue of determining the educational cost-benefit of standardizing learning resources within the district. However, even while the district is studying that educational issue, we believe it can save money by being more proactive in combining existing school orders. To do this would require cooperation between the schools and the purchasing department, as all schools would need to get their orders to the purchasing department at the same time.

*Recommendation 7: The district should see whether it can achieve net cost savings by combining schools' individual orders for textbooks and other learning resources.*

### **Ad Hoc Purchases**

District policy requires all purchases, with limited exceptions, to be made through the purchasing department. We believe the district should examine whether it is cost-effective to process small purchases



this way. In our opinion, allowing schools to make their own purchases below a certain dollar value would reduce central administrative costs, allow the purchasing department to concentrate on big purchases where its expertise can result in significant savings for the district, and save time and frustration in the schools.

*Recommendation 8: The district should examine the cost-effectiveness of allowing schools to make direct purchases of lower-value goods.*

One of the exceptions to the rule that purchases must be made through the purchasing department is that maintenance staff are allowed to purchase repair items costing up to \$2,000 directly from suppliers. We understand that the district has not negotiated standard discounts with suppliers from whom these direct purchases are made. Based on the experience reported to us by other districts that have obtained such discounts, we suggest that Kamloops district investigate whether it can do the same.

*Recommendation 9: The district should attempt to negotiate standard discounts with suppliers from whom it makes frequent purchases of maintenance supplies.*

#### **Cooperative Purchasing**

Kamloops school district, like most others we visited, finds few perceived advantages in making joint purchases with other school districts or local agencies. The time and effort to coordinate such purchases, and the need to change district standards sometimes to make joint buying possible, are seen by district staff as making cooperative purchasing more trouble than it is worth.

On the other hand, transactions that individually have only a small payoff for each district may, taken together, significantly benefit the province as a whole. For example, we were told that buying textbooks in bulk can result in savings of up to 20%. Districts may be able to combine their textbook orders with their neighbors' to gain sufficient volume. We believe that in many cases the extra cost of, say, having to coordinate deliveries in a number of districts would be more than offset by the public benefit.

*Recommendation 10: Senior management of the district, with their counterparts in other districts and public bodies, should examine the benefits of cooperative purchasing and, where possible, reduce obstacles preventing its use.*

#### **Warehousing Materials for Economy**

The district's central warehouse is located in the central maintenance complex. There are several entrances to the warehouse, so warehouse staff do not have complete control over who has access to inventory. As well, the warehouse shares space with the purchasing department, which creates added traffic through the warehouse area.

Normally, warehouse operators periodically count their inventory (or a sample of it) and compare the count to the inventory records. The Kamloops warehouse does not do so. We believe that such counts are an essential safeguard over public assets.

*Recommendation 11: The district should improve its physical controls over access to warehouse stock, and should periodically check the effectiveness of its*



*entire warehouse control system by carrying out inventory counts and comparing them to its warehouse records.*

The district has not recently carried out a formal cost-benefit study on the warehouse. Such periodic scrutiny is necessary because there are, increasingly, cost-effective alternatives to operating one's own warehouse. For example, one district we visited had arranged for its photocopy paper supplier to also warehouse that paper. Schools ordered directly from the supplier as needed; the district still received a discount based on its estimated annual purchases. In another district, storage of photocopy paper, as well as its delivery to schools as needed, was contracted to a private company.

A consideration in examining the cost-benefit of the warehouse is that space is at a premium in the building that houses it. The district is having to convert nearby storage sheds into fully serviced buildings to

accommodate staff needed to repair computers and other equipment. The cost of this conversion is a measure of the implicit value of the space currently being used for the warehouse. In this regard, we noted that even unpopular stock, which is not being moved out of the warehouse quickly, is kept in the catalog—and occupying space on the shelves—as long as it lasts.

A special feature of the Kamloops warehouse is that the district allows local public service and educational agencies, including daycares, recreational agencies, and First Nations schools, to purchase goods from the warehouse. This policy may help to enhance economies of scale within the purchasing department and the warehouse.

*Recommendation 12: The district should periodically analyze the cost-effectiveness of its warehouse.*





## Probity in Purchasing

When purchasing is carried out with public funds, there is an expectation that it will be done with probity—that is, honesty in fact and in appearance. Policies and procedures should therefore be designed with this goal in mind, and management should convey to its employees that ethical values cannot be compromised.

### Conclusion

Probity is given appropriate attention in the district's policies, and is encouraged by the district's general management controls and the attitudes of its employees.

### Findings

Essentially, probity is an attitude rather than a policy or procedure. The corporate culture generally, and the example set by management specifically, are key to whether business is carried out honestly and with sound stewardship. In Kamloops school district, as in the others visited, we felt that the management and staff we interviewed shared a common attitude, namely, that the focus of their job was service to the district.

Kamloops district has a clearly stated policy on conflict of interest.

Furthermore, district policies designed to encourage good value also encourage probity. For example, policy requires competitive tenders and public tender openings for most major purchases. Competitive tendering puts purchase transactions under a spotlight, exposed to the scrutiny of district staff and interested suppliers.

Although we did not find any formal monitoring specifically of the probity of purchase transactions, probity is encouraged by the district having formal management controls over the events surrounding the purchase decision. These are controls to ensure that those who initiate or approve transactions are authorized to do so, that purchase transactions are charged to the appropriate accounts, and that accounts have sufficient funds to cover the purchase. These management controls were outside the scope of our audit. However, nothing we found during our audit gave us cause for concern about them.





## Equitable Treatment of Suppliers

Purchasers in the public sector are expected not to show any supplier favoritism. Who gets an opportunity to bid, how products are specified, how bids are responded to, and how the winning bid is chosen all affect how equitably suppliers are treated.

### Conclusion

The district's purchasing methods are generally sufficient to ensure that suppliers are treated equitably.

### Findings

The district's policy states that the acceptance of tendered items "shall be based upon quality, durability and suitability for the School District." Many of the purchasing department's practices also encourage equity. Tender lists are open, as required by policy, and standards and specifications do not, in our opinion, unfairly limit prospective suppliers.

However, we did encounter instances, which may have been isolated, where the district's practices in responding to bids and selecting winning bidders may have caused inequities. One example was a bulk paper tender, in which the district stated an apparently firm requirement in the tender, then varied it without offering all suppliers the chance to amend their bid to reflect the changed circumstances. We also noted an instance where a school received quotes from a number of suppliers and then offered one supplier the chance to beat the lowest bid. The purchaser was unaware that this is considered inequitable in public sector purchasing.

*Recommendation 13: The district should clearly define the procedures it wants used for responding to bids and selecting winning bidders, and should ensure that staff understand the rationale for these procedures.*







## Use of Local and Regional Suppliers

Governments sometimes use their purchasing power to achieve economic or social goals such as encouraging local industries.

Although such choices are more common at the provincial or national level, we looked to see whether this school district had such policies and, if so, how well it carried them out.

### Conclusion

Policy and practice in the district encourage the use of local suppliers whenever they are

competitive with outsiders on price and quality.

### Findings

The district has a policy that specifies it will not discriminate between local and other suppliers. The purchasing department's practice is in line with this policy: if local suppliers are competitive, they will be considered.





## District Response

*The Board of School Trustees does not meet until late in the summer and [the Superintendent] is on vacation. The Board cannot therefore submit an official response to your report. I am the District's Secretary-Treasurer and an executive member of the Board, and submit the following on behalf of the School District as an official response to your audit report.*

*We wish to thank you and your staff for the report and for the opportunity to critique its contents in the draft stages.*

*Your review of procedures has provided us with an objective insight that we will reference in our continuing review of our Financial Management System.*

*We are disappointed with and disagree with your conclusion that our procedures are "...not sufficient to ensure that the District always gets good value when acquiring supplies". We are confident that the taxpayer receives good value for purchasing dollars spent by this School District.*

*A review of your report reveals no examples of transactions that failed to achieve this goal. You cite examples of transactions and leave the reader to infer that good value was not achieved. In each instance we know we received equal or better quality for reduced current and future cost after a thorough examination of our needs and available product.*

*Your report suggests that the District may not be receiving available discounts on textbook and maintenance*

*supply purchases. We receive a net school price on textbook purchases and purchase maintenance supplies at contractor rates. Our research tells us these are the discounts available but we will examine these areas again to be certain.*

*Your analysis of Board policy and the roles of school staff versus purchasing staff misses the essence of our purchasing system.*

*Financial control of transactions must be and is maintained, but the system is sufficiently flexible to provide immediate approvals should the need arise.*

*Our system is centralized and certain supply and equipment items are standardized in accordance with Board Policy. While it would be fair to discuss this as a style of management, it is unfair to suggest that ambivalence exists about how school principals are to exercise their responsibilities. School principals are aware of their responsibilities. Some disagree, but they are not misled by ambiguous Board Policy as you suggest.*

*All systems whether purchasing, financial, educational, etc. require periodic review to maintain their vitality. An objective analysis, such as yours, is required periodically to reveal areas that need improvement and are taken for granted by day to day users. Your report has provided us with that objective point of view.*



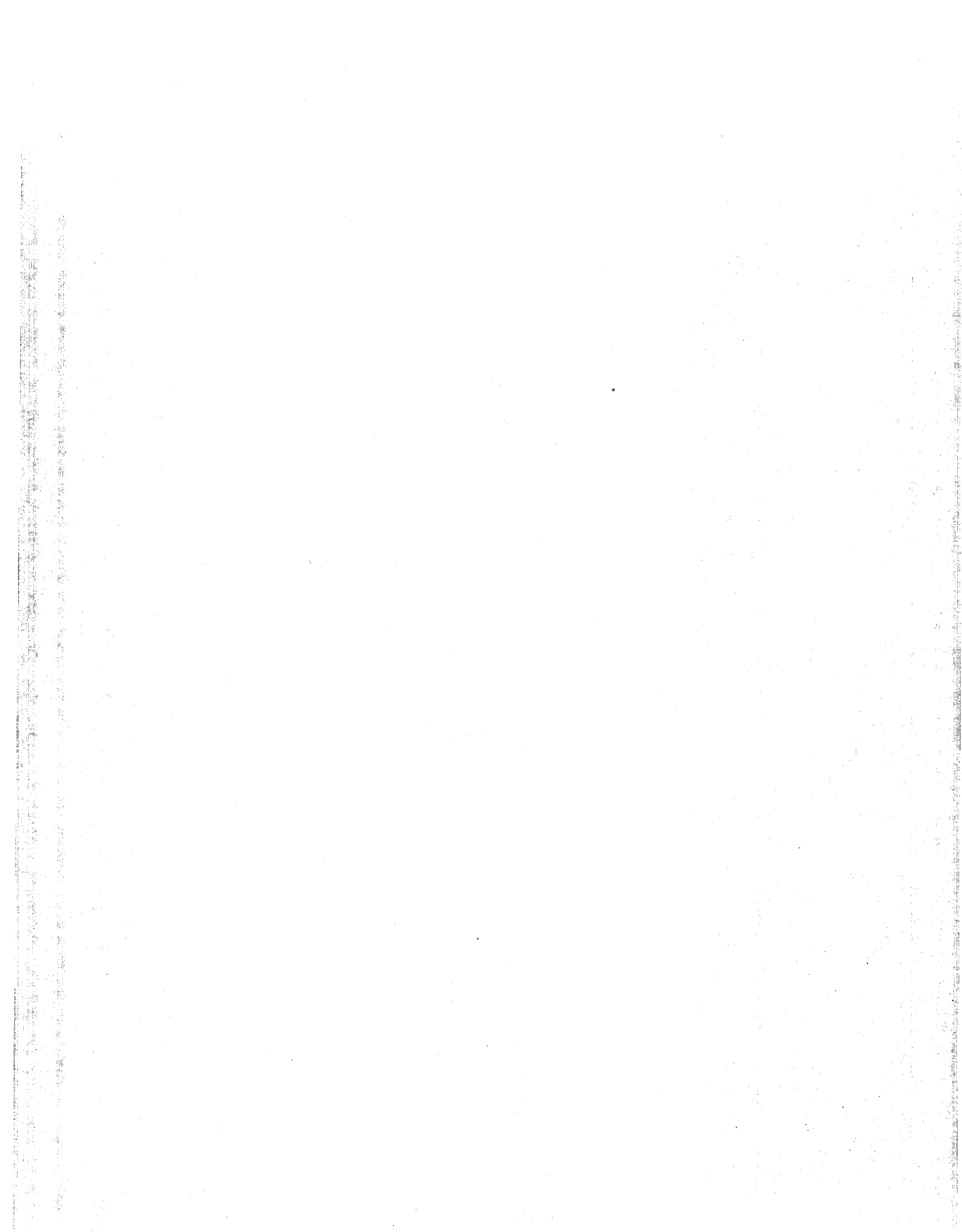
# AUDITOR GENERAL

*Value-for-Money Audit*

**PURCHASING IN SCHOOL DISTRICTS**

*Purchasing in Langley (#35) School District*







## Purchasing in School Districts

# *Purchasing in Langley (#35) School District*

### **Audit Purpose and Scope**

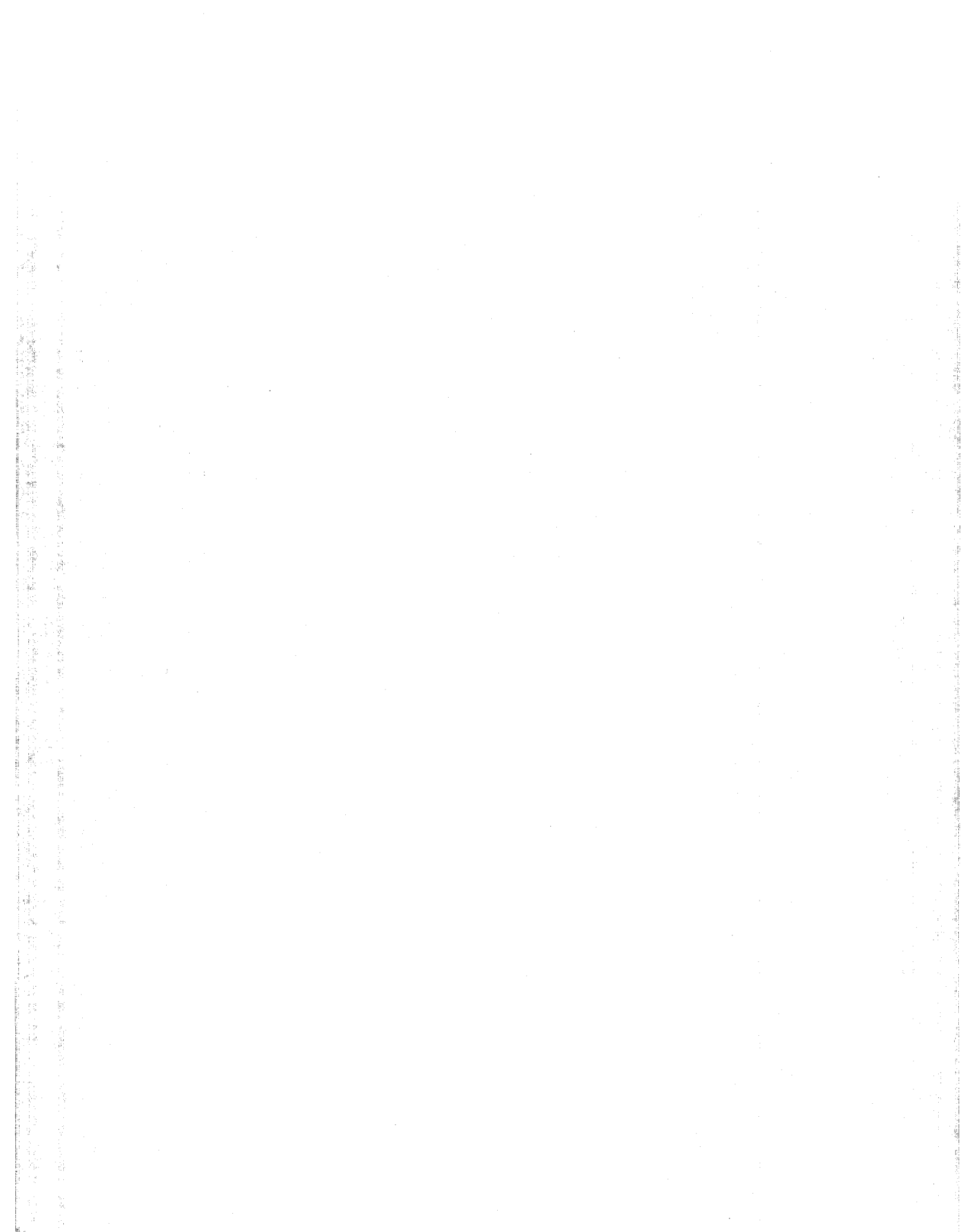
We conducted our audit to determine whether the purchasing methods of Langley school district ensure that the district is getting good value when acquiring supplies. Getting good value means obtaining the right goods to meet the specified need at the lowest overall cost, including the cost of acquiring the goods. Doing this requires that responsibilities be properly assigned, training be provided as necessary, performance be monitored, and sound purchase techniques be adopted. Furthermore, purchasing activities must be carried out with probity and suppliers must be treated equitably.

We focused our audit work on purchasing policies and processes in place in the district in the 1993/94 school year. We also looked at the history of a process when it helped us better understand the current situation. Our audit did not include an examination of whether the school district made good use of the materials it bought; we looked only at the ways the materials were acquired. Also, we did not examine the purchase of services.

### **Overall Conclusion**

Purchasing methods in Langley school district are sufficient to ensure that it is getting good value when acquiring supplies, that probity is encouraged, and that suppliers are treated equitably.







## Understanding Purchasing in Langley School District

School District #35 (Langley) serves Aldergrove, Fort Langley, Langley, and the surrounding area. There are about 18,000 students in the district in 33 elementary schools (Grades K-7), 1 fine arts school (Grades 1-12), and 8 secondary schools (Grades 8-12), with enrollments ranging from 90 to 1,172. The district is building one new elementary school and doing a \$5 million expansion to a secondary school, both to open in 1994/95. The district's 1,185 full- and part-time teachers are supported by 92 principals and vice-principals, most of whom have some teaching responsibilities, and approximately 600 support staff, such as teaching assistants, clerical staff, custodians, maintenance workers, and district administrators. To operate and support these schools in 1993/94, the district had an operating budget of \$101 million, mainly funded by the provincial Ministry of Education.

Langley school district uses a system of school-based management: that is, each school is given a budgeted amount from which it must cover most of its non-salary costs, including goods purchases.

Nearly all purchases for schools are made on their behalf by the district's central purchasing department. The district also operates a central receiving department and a central warehouse that supplies most of the consumable materials used by the schools.

### *Major Purchase Streams in the District*

In the school districts we visited, we identified four main

purchase streams: educational resources, educational commodities, educational equipment, and maintenance materials.

Educational resources include library materials, texts, and other learning resources. Educational commodities include paper and other stationery supplies, art supplies, physical education supplies, industrial education supplies, and science supplies. Educational equipment includes audio-visual equipment, furniture, computers, and photocopiers. Maintenance materials include maintenance supplies, janitorial supplies, and fuel.

Within the four main purchase streams, we found that purchasing in Langley school district takes the following forms:

#### **Educational Resources**

Each school is given a budgeted amount annually for purchasing textbooks and other learning resources. The titles to be bought are primarily the choice of staff in the school, although district committees give some guidance. The purchasing department buys educational resources for the schools, as and when a school requests them; there is no bulk buying of texts and other learning resources. Library resources are managed similarly.

#### **Educational Commodities**

Paper and most other stationery supplies are bought in bulk by the purchasing department and distributed through the central warehouse. Schools send



Courtesy of Langley (#35) School District

*Primary instruction requires a range of learning materials*

requisitions to the warehouse and their orders are delivered by the district courier service.

**Educational Equipment**

The purchasing department has developed a catalog of recommended furniture and equipment such as computers and audio-visual equipment. (It has also developed similar recommendations about photocopiers.) Schools usually select what they need from the catalog, but they can choose to buy non-recommended equipment or furniture. The orders are sent out through the purchasing department.

**Maintenance Materials**

Custodial supplies are bought in bulk by the purchasing department, which also tenders supply contracts for vehicle and heating fuel. Most

other maintenance supplies are purchased as needed, by maintenance workers buying directly from suppliers with whom the district has standing orders.

. . . . .

We have organized our report into four major sections: "Good Value in Purchasing"; "Probity in Purchasing"; "Equitable Treatment of Suppliers"; and "Use of Local and Regional Suppliers." Where we think they would be helpful to the school district, we have included recommendations, even though the areas needing improvement are not significant enough to affect our overall conclusion on the district's purchasing performance.







## Good Value in Purchasing

### Conclusion

In our opinion, the methods used by Langley school district for organizing its purchasing activities, gauging the performance of purchasing activities, planning its requirements, and managing its purchase transactions are sufficient to give it good value in purchasing.

### Findings

#### *Good Value Through Organization*

Purchasing is more apt to be carried out with economy if responsibilities for specific areas of purchasing are clearly laid out, and if management ensures that purchasers have the training and skills to carry out their assigned responsibilities.

#### *Assignment of Responsibility*

Responsibility for purchasing is clearly understood by both principals and central managers, despite what we first perceived as a conflict of authority.

On the one hand, district policy requires that all purchase transactions pass through the purchasing department. On the other hand, under the district's school-based management system, principals are responsible and accountable for the business operations of their schools, such as the acquisition of supplies. These two different policies are reconciled by the way the purchasing department carries out its role, acting as a service agency rather than a control agency. The district's annual satisfaction surveys of

principals, as well as our own interviews, show that the department is succeeding in this role. The schools we visited indicated that the purchasing department is a welcome source of information and assistance.

#### *Needed Knowledge and Skills*

The district has given appropriate attention to seeing that its purchasing staff have needed knowledge, skills, and technical support. It has documented the knowledge and skills it requires of them, and it gives them a reasonable level of encouragement to obtain further professional development. They have also been supplied with appropriate computer technology and training to allow them to do their work efficiently.

#### *Gauging Performance in Achieving Good Value*

Good management of purchasing requires that performance goals be set, that performance be judged against those goals, and that results be reported to those ultimately responsible—in school districts, the board of trustees.

#### *Setting Performance Goals and Judging Performance*

The district has appropriate means for monitoring the performance of the purchasing function and reporting on that performance to the board. Although formal performance goals are not set for the purchasing department, its focus in practice is on customer satisfaction and purchasing efficiency. The purchasing



department's performance as a service agency is judged through regular satisfaction surveys of principals. The principals rate the purchasing department's performance very highly. As well, the purchasing manager uses a range of informal techniques to assure himself that his department is efficient.

#### **Role of the Board of Trustees**

The board of trustees has chosen not to be actively involved in purchasing operations; rather, it sets policy and then lets its senior managers manage. The secretary-treasurer, both directly and through the superintendent, is responsible to the board for financial and administrative activities, including those of the central purchasing department.

In all districts we visited, boards had delegated the responsibility for management, including management of purchasing, to their senior officials. However, in none of them did we find a systematic method by which officials reported to their board on their stewardship over purchasing. Langley does have some formal accountability through senior managers sharing with the board the results of the surveys of principals. It is the only district we visited that does so.

#### ***Good Value Through Requirements Planning***

Low-cost occasional purchases may require nothing more than a phone call to a local retailer. More significant purchases, however, require planning and investigation. For bulk purchases, staff need to collect information on past use and project the likely demand for at least the next year. For strategic

purchases, staff need to think about the future implications of purchase decisions and to make sure those decisions fit with district plans. For purchases that are frequent or have maintenance or training implications, staff need to consider whether standardizing brands, models, or specifications would give best value for the district.

#### **Information on Past Use**

The purchasing department has recently upgraded the computer system used in managing its central warehouse, so it can now accumulate detailed information on patterns of past use of items carried in the warehouse. For items not carried in the warehouse, the department does not formally collect information on past use. However, the department's buyers specialize by product and have a good informal knowledge of the buying and use patterns of their products.

#### **Planning**

In the school districts we visited, three aspects of planning had important implications for purchasing: the integration of technologies such as microcomputers into the schools, the opening of new schools, and the management of textbooks, other learning resources, and library resources.

Langley district does not yet have an organized system for planning for technology; it is just now developing one. However, transactions we examined suggest that, even without a formal plan, the district is dealing appropriately with major technological purchases.

The district also has appropriate methods for dealing with the purchasing needs of new schools.



The purchasing department assembles a list of what is needed for each room, working often from computerized lists developed for other new schools. It then calculates a total estimated cost for budget purposes and helps the school revise the list to fit the funds available. When the process is complete, the principal signs off the list. The purchasing department then develops specifications in cooperation with the school, puts the items to tender, analyzes the bids, and recommends to the school the bids to accept.

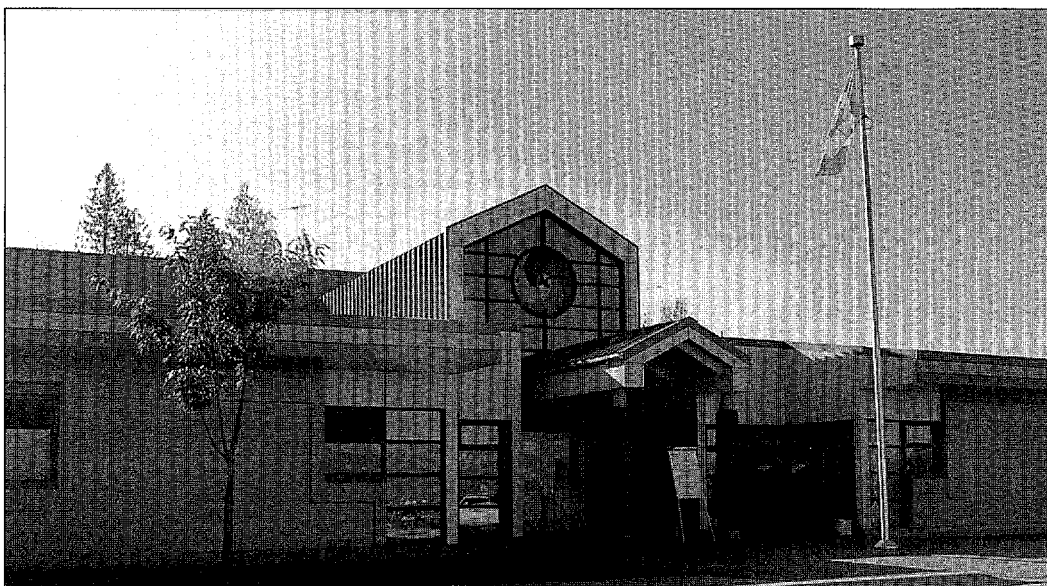
Schools decide individually what textbooks and other learning resources, and library materials, they will buy. To assist them in this, they each keep track of their library holdings and their inventories of textbooks and other learning resources. However, to ensure consistency, they must by policy take a complete text inventory each year and file that inventory with the purchasing department. District internal audits include a check of these inventories.

### Standardization

The district has well-developed processes for standardizing products where doing so is beneficial. The general process is one in which the purchasing department works with end users in the school district to define the needs to be met and find the best products to meet them cost-effectively.

For example, custodial products are chosen by a committee made up of a buyer from the purchasing department, the district's custodial supervisor, and a number of custodians. When promising new products appear, they are tested in sample schools and, if proven superior there, become the new standard. A similar process is followed in developing recommended lists of microcomputers and photocopiers.

Schools are informed of standard products through a catalog issued by the purchasing department. The catalog describes standard items carried in the warehouse as well as the



Courtesy of Langley (#35) School District

*A modern elementary school (Alex Hope Elementary School)*

department's recommendations for furniture and equipment.

### *Good Value Through Managing the Purchase Transaction*

Choosing what to buy is not the final step in purchasing economically. How the purchase transaction is carried out also affects the total cost. For example, a district may be able to make savings by using competitive tendering or by making purchases in cooperation with other districts. The measure of a district's success in this area is whether it can choose methods of supply that minimize the cost of goods acquired, including the cost of acquiring them.

### *Competitive Tendering*

District policy is that purchases over \$5,000 must be tendered formally, and purchases between \$1,000 and \$5,000 need at least two competitive quotations. We found the district's purchasing practices to be in line with policy. We did note one major purchase—a media integration system for a new school—that was not formally tendered. However, in choosing the winning supplier, school and district staff first weighed the different capabilities of the major systems available. They then selected the one they thought would best meet the needs of the school as well as become the standard for other schools. We concluded that the process was appropriate to this kind of purchase, a kind that may not have been contemplated when the district policy was drafted.

*Recommendation 1: The district should expand its policy on competitive purchasing to address purchasing situations for which a request for proposal is appropriate.*

### **Precise Contract Terms**

The district has a set of standard clauses for tender documents, and is part of a cooperative group developing a more extensive set. These standard terms were not, however, used consistently in the sample of recent tenders that we examined. Although we found no evidence of problems with purchase contracts that did not use the standard contract clauses, we believe that applying a complete set of standard contract language would benefit the district, reducing staff time required to draft bid documents and ensuring that the district's requirements are clearly stated.

*Recommendation 2: The purchasing department should consistently use standard contract language in its purchasing documents.*

### **Bulk Buying**

The purchasing department makes appropriate use of bulk buying within the constraints placed upon it by school-based management. Supplies under central control, such as fuel and some maintenance supplies, are bought in bulk. Standard and frequently used supplies for schools are stocked in the warehouse, and here again the purchasing department takes advantage of the cost savings obtainable through bulk buying. Whenever possible, it also tries to buy in bulk those school supplies that are not stocked in the warehouse. For example, it encourages schools to join in bulk purchases of supplies for science and physical education programs.

In some cases, however, problems arise when schools have preferences for different brands or types of equipment, or have



Courtesy of Langley (#35) School District

*Bus transportation is an important part of the school system*

difficulty in allocating their budget and making their purchase choices in time for the purchasing department to assemble and tender a bulk order. For example, the district is currently buying learning resources piecemeal, as schools request them. It is therefore not getting the cost savings possible by standardizing choices or bulk buying.

We realize that the economic benefits of bulk buying are secondary to the larger issue of whether there is educational cost-benefit from standardizing learning resources within the district. Nevertheless, even while the district is studying that educational issue, we believe it can save money by being more proactive in combining existing school orders.

*Recommendation 3: The district should see whether it can achieve net cost savings by combining schools' individual orders for textbooks and other learning resources.*

### Ad Hoc Purchases

The district has appropriate methods for making purchases that do not lend themselves to bulk buying. Schools buy most of their standard supplies and other minor purchases through the warehouse catalog, and we found that they are pleased with this service. If a school needs materials not carried in the warehouse, the purchasing department, after ascertaining the school's needs, special orders the materials. In emergencies or when a teacher has to select material (such as sheet music) in person, the purchasing department authorizes schools to make purchases directly.

The maintenance department frequently has to purchase items in small quantities, such as repair parts for a furnace. The district uses negotiated standing offers for most of these purchases. Maintenance workers can thus obtain needed supplies quickly, and the district can



more easily keep track of large numbers of small purchases. As well, because its volume of such purchases is significant, the district is often able to negotiate discount prices on these standing offers.

#### Cooperative Purchasing

The district makes good use of opportunities for cooperative purchasing. It is a member of two buying groups with other school districts and public bodies in the lower mainland. These groups arrange joint purchases and act as a forum for the exchange of information. One of the buyer groups has developed a model set of standard tender documents, which its members are currently testing.

#### Warehousing Materials for Economy

The district's warehouse is located in a secure modern building with supervised access. Inventory counts are carried out regularly and results are compared with the computer records.

We were told that the purchasing department intends to

analyze the cost-effectiveness of its warehouse operation, making use of the detailed information now available as a result of recent improvements in the warehouse inventory management system. We support this initiative: such periodic scrutiny is necessary because there are, increasingly, cost-effective alternatives to operating one's own warehouse. For example, one district we visited had arranged for its photocopy paper supplier to also warehouse that paper. Schools ordered directly from the supplier as needed; the district still received a discount based on its estimated annual purchases. In another district, storage of photocopy paper, as well as its delivery to schools as needed, was contracted to a private company.

*Recommendation 4: The district should periodically examine the cost-effectiveness of its warehouse.*





## Probity in Purchasing

When purchasing is carried out with public funds, there is an expectation that it will be done with probity—that is, honesty in fact and in appearance. Policies and procedures should therefore be designed with this goal in mind, and management should convey to employees that ethical values cannot be compromised.

### Conclusion

Probity is given appropriate attention in the district's policies, and is encouraged by the district's general management controls and the attitudes of its employees.

### Findings

Essentially, probity is an attitude rather than a policy or procedure. The corporate culture generally, and the example set by management specifically, are key to whether business is carried out honestly and with sound stewardship. In Langley school district, as in the others visited, we felt that the management and staff we interviewed shared a common attitude, namely, that the focus of their job was service to the district.

Langley district has clearly stated policies on conflict of interest, and on the need for staff to give all

suppliers equal consideration and the assurance of unbiased judgment. Furthermore, district policies designed to encourage good value also encourage probity. For example, Langley district policy requires competitive tenders and public tender openings for major purchases. Competitive tendering puts purchase transactions under a spotlight, exposed to the scrutiny of district staff and interested suppliers.

Although we did not find any formal monitoring specifically of the probity of purchase transactions, probity is encouraged by the presence of procedures for controlling and monitoring transactions. The district has formal management controls over the events surrounding the purchase decision, such as controls to ensure that those who initiate or approve transactions are authorized to do so, that purchase transactions are charged to the appropriate accounts, and that accounts have sufficient funds to cover the purchase. These management controls were outside the scope of our audit. However, nothing we found during our audit gave us cause for concern about them.





## Equitable Treatment of Suppliers

Purchasers in the public sector are expected not to show any supplier favoritism. Who gets an opportunity to bid, how products are specified, how bids are responded to, and how the winning bid is chosen all affect how equitably suppliers are treated.

### Conclusion

The district's purchasing methods are sufficient to ensure that suppliers are treated equitably.

### Findings

The district's policies call for unbiased, courteous treatment of suppliers, open tendering of significant purchases, open access to

bidders' lists, and open bid openings. Our observations of purchasing activities, our interviews with purchasing and other staff, and our review of purchase files all indicated that these policies are accepted and carried out by district staff.

In district tendering, brand names are avoided or used for descriptive rather than restrictive purposes. Opportunity is given for suppliers to have non-specified materials reviewed and accepted as an acceptable substitute, if warranted.







## Use of Local and Regional Suppliers

Governments sometimes use their purchasing power to achieve economic or social goals such as encouraging local industries. Although such choices are more common at the provincial or national level, we looked to see whether this school district had such policies and, if so, how well it carried them out.

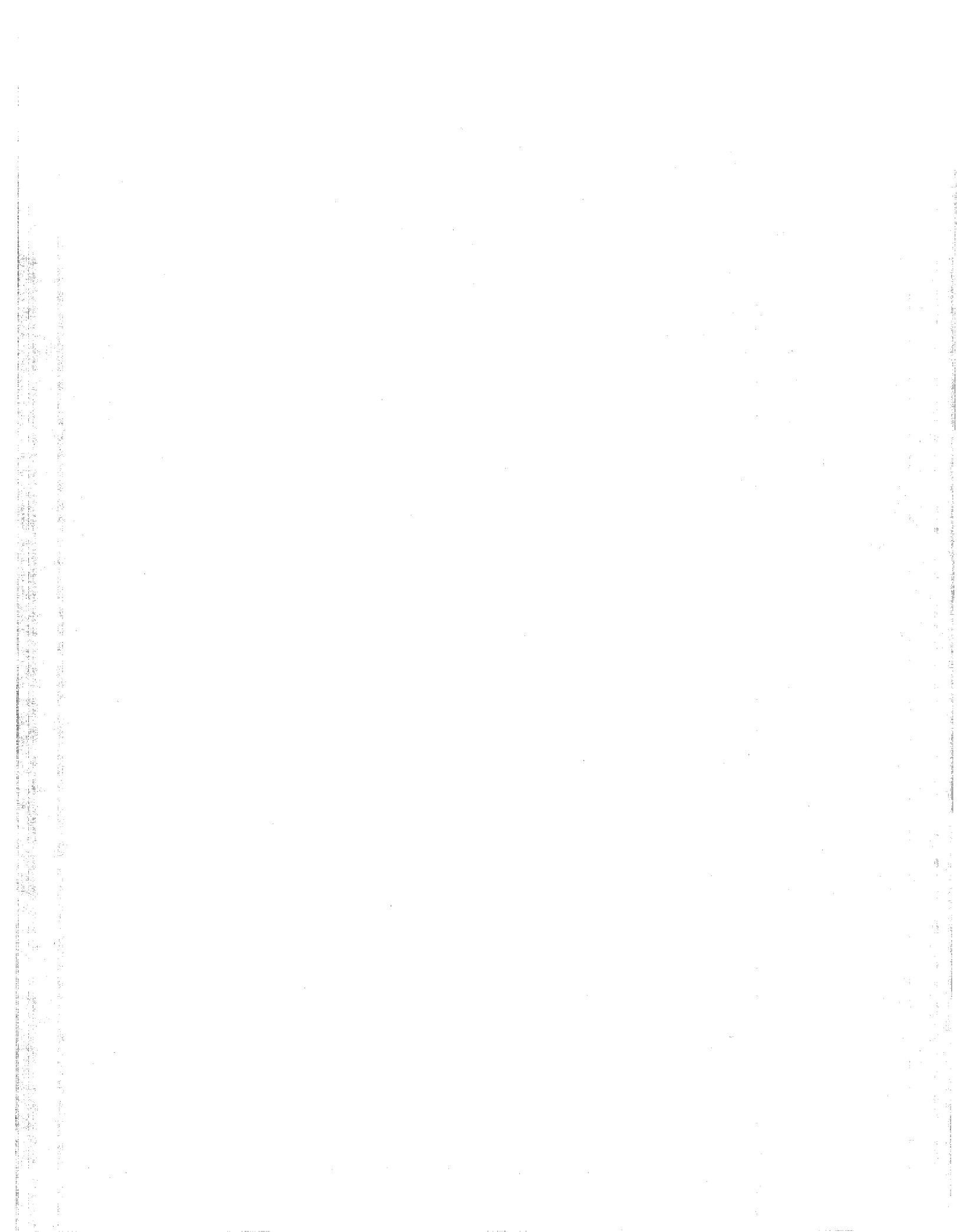
### Conclusion

Policy and practice in the district encourage the use of local suppliers whenever they are competitive with outsiders on price and quality.

### Findings

The district's policy is that local suppliers get no special preference, but will be chosen if competitive. The district's actions complement this policy: it is in frequent communication with the local business community and its staff encourage local suppliers to stretch their range of products to meet district needs. However, the purchasing department will buy from outside the district or region when price or quality is superior elsewhere.





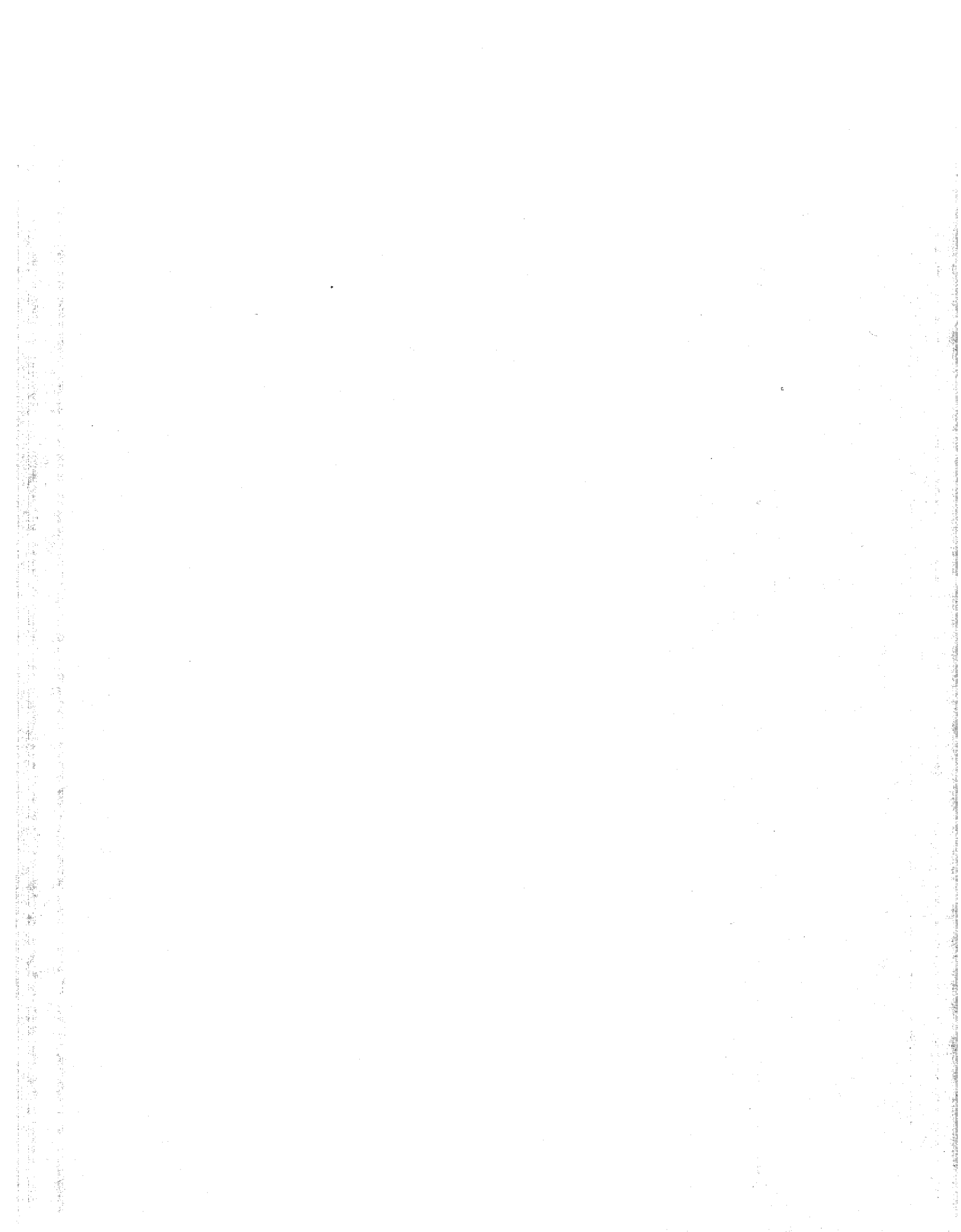
# AUDITOR GENERAL

*Value-for-Money Audit*

**PURCHASING IN SCHOOL DISTRICTS**

*Purchasing in Peace River North (#60) School*







## Purchasing in School Districts

# *Purchasing in Peace River North (#60) School District*

### **Audit Purpose and Scope**

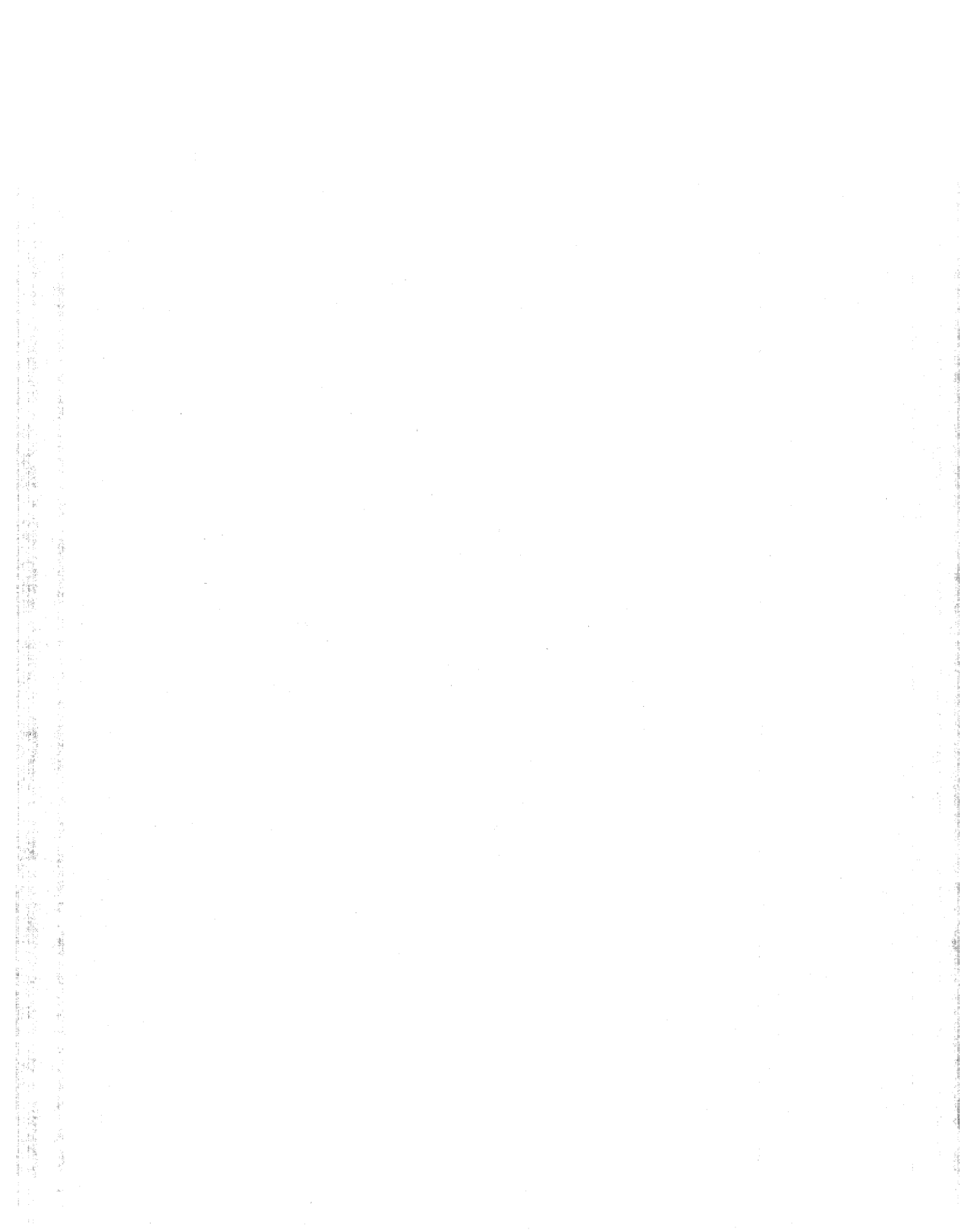
We conducted our audit to determine whether the purchasing methods of Peace River North school district ensure that the district is getting good value when acquiring supplies. Getting good value means obtaining the right goods to meet the specified need at the lowest overall cost, including the cost of acquiring the goods. Doing this requires that responsibilities be properly assigned, training be provided as necessary, performance be monitored, and sound purchase techniques be adopted. Furthermore, purchasing activities must be carried out with probity and suppliers must be treated equitably.

We focused our audit work on purchasing policies and processes in place in the district in the 1993/94 school year. We also looked at the history of a process when it helped us better understand the current situation. Our audit did not include an examination of whether the school district made good use of the materials it bought; we looked only at the ways the materials were acquired. Also, we did not examine the purchase of services.

### **Overall Conclusion**

Purchasing methods in Peace River North school district are sufficient to ensure that it is getting good value when acquiring supplies, that probity is encouraged, and that suppliers are generally treated equitably.







## Understanding Purchasing in Peace River North School District

School District #60 (Peace River North) covers approximately 93,000 square kilometers, making it in area the second largest district in the province. It serves the communities of Fort St. John, Taylor, Hudson's Hope, Charlie Lake, Upper Pine, Clearview, Prespatou, and the surrounding area. There are about 5,300 students in the district in 11 elementary schools (Grades K-7), 4 elementary-junior secondary schools (two Grades K-10 and two Grades K-8), 2 elementary-secondary schools (Grades K-12), 2 junior secondary schools (Grades 8-10), and 1 secondary school (Grades 10-12). The district will be opening a new elementary-secondary school to replace an older school in the fall of 1994. School enrollments range from 15 to 832. The district's 338 full- and part-time teachers are supported by 28 principals and vice-principals and approximately 300 support staff—secretaries, library clerks, teaching assistants, custodians, maintenance workers, bus drivers, lunch period monitors, crossing guards, bus attendants, and district administrators. Approximately 20% of the principals' and vice-principals' time collectively is spent teaching.

To operate and support these schools in 1993/94, the district had an operating budget of \$32 million, mainly funded by the provincial Ministry of Education.

Peace River North school district uses a system of school-based management: that is, each school is given a budgeted amount from which it must cover most of its

non-salary costs, including goods purchases. Within district policies, schools have the flexibility to set their own priorities.

The district centrally manages accounting, building maintenance, custodial services, and bus transportation. It does not have specialized purchasing staff, but instead has school and district staff purchase materials as part of their regular duties. Principals have the authority to issue purchase requisitions, but the accounting and payment for all transactions are the responsibility of the secretary-treasurer's office.

### *Major Purchase Streams in the District*

In the school districts we visited, we identified four main purchase streams: educational resources, educational commodities, educational equipment, and maintenance materials.

Educational resources include library materials, texts, and other learning resources. Educational commodities include paper and other stationery supplies, art supplies, physical education supplies, industrial education supplies, and science supplies. Educational equipment includes audio-visual equipment, furniture, computers, and photocopiers. Maintenance materials include maintenance supplies, janitorial supplies, and fuel.

Within the four main purchase streams, we found that purchasing in Peace River North school district takes the following forms:



### **Educational Resources**

The majority of purchases are made by each school on an individual basis. The teaching staff make their choices from a list of recommended titles provided by the ministry.

Unlike other districts we visited, where funding for library resources was allocated centrally by the district, in Peace River North each school allocates a portion of its budget to the library. School librarians determine library resource needs in consultation with staff and then purchase the required materials. Schools may also borrow resources from a district resource center.

### **Educational Commodities**

For photocopier paper, the largest volume item purchased, the district compiles school requests annually and tenders on the bulk order. Most other commodities are purchased annually by each school in bulk; minor purchases are made as needed throughout the year.

The district coordinates the purchase of standard supplies for its elementary students. Each school receives a year's worth of supplies in September. Parents pay a yearly fee to the school and the school supplies the children with pencils, notebooks, and whatever else is needed.

### **Educational Equipment**

The district has developed recommendations to guide schools in the purchase of audio-visual equipment. New audio-visual equipment is purchased out of a school's budget; replacement equipment is purchased through a central fund.

Because its student population is not growing rapidly, the district does not require large amounts of new furniture. Before buying furniture, schools check with the maintenance department, which can often find surplus items within the district. Most new office furniture, bookshelves, and tables are built by the maintenance department. What it is unable to supply, schools purchase on their own.

Photocopiers are under the direct control of the district and are purchased out of the district budget through a replacement program negotiated with a local supplier.

Standards for computers have been established by the district computer committee. Each school decides on the amount of money it will allocate each year for computers, and then goes ahead and purchases them. There is one exception to this approach: the implementation of a computerized library system. In this instance, the school board allocates funds each year to assist schools in implementing the system.

### **Maintenance Materials**

Once or twice a year, the maintenance department tenders a bulk order to restock supplies used in volume, such as cabinet materials, drywall, and tackboard. In addition, the district has standing offers with local lumberyards, building supply stores, and automotive dealers so that maintenance staff can purchase items as needed.

The maintenance department also buys custodial supplies, as well as fuel. School requirements for custodial supplies are compiled annually by the custodial supervisor





and tendered as a bulk order. Fuel for heating schools is tendered every three years; fuel for operating vehicles is tendered annually.

. . . . .

We have organized our report into four major sections: "Good Value in Purchasing"; "Probity in Purchasing"; "Equitable Treatment of Suppliers"; and "Use of Local and

Regional Suppliers." Where we think they would be helpful to the school district, we have included recommendations, even though the areas needing improvement are not significant enough to affect our overall conclusion on the district's purchasing performance.





## Good Value in Purchasing

### Conclusion

In our opinion, the methods used by Peace River North school district for organizing its purchasing activities, gauging the performance of purchasing activities, planning its requirements, and managing its purchase transactions are sufficient to give it good value in purchasing.

### Findings

#### *Good Value through Organization*

Purchasing is more apt to be carried out with economy if responsibilities for specific areas of purchasing are clearly laid out, and if management ensures that purchasers have the training and skills to carry out their assigned responsibilities.

#### *Assignment of Responsibility*

The secretary-treasurer is responsible for developing policy and monitoring transactions through the accounting system.

Principals have been delegated the responsibility for overseeing purchasing activities within their schools. While they may delegate purchasing responsibilities to vice-principals, school secretaries, teachers, or department heads, only principals can authorize purchase orders initiated in their schools. Responsibility for the purchase of maintenance supplies has been delegated to the maintenance supervisors.

The schools are given several incentives to encourage planning and good management of funds. For example, a school can borrow money from the district to buy equipment. The money has to be paid back,

usually over a two-year period, but there is no interest charged in the first year. This process allows a school to plan for the replacement or addition of high cost equipment which it could not otherwise afford to buy within its annual budget. Schools are also allowed, with the secretary-treasurer's approval, to carry forward money from one year to another in order to save enough money to purchase higher-priced new equipment.

#### *Needed Knowledge and Skills*

The district does not have professional purchasing staff. Staff who have been assigned purchasing responsibilities do not receive formal training on purchasing. They rely on district policies, their own experience, and training from colleagues to guide them in their purchasing activities.

#### *Gauging Performance in Achieving Good Value*

Good management of purchasing requires that performance goals be set, that performance be judged against those goals, and that results be reported to those ultimately responsible—in school districts, the board of trustees.

#### *Setting Performance Goals and Judging Performance*

Other than the expectation that district policy will be followed, the district office does not have specific goals for school purchasing.

There is also no formal measurement of performance in purchasing. However, given the size of the district, senior administrators such as the superintendent,



secretary-treasurer, principals, and the controller are able to maintain control over the purchasing transactions of the schools through performance review and the review of purchase orders.

In overseeing purchasing, the district focuses mainly on the approval and accounting processes. Approval procedures within the schools and the accounts payable department ensure that orders for goods are placed only by those authorized to do so. Principals, department supervisors, and district management scrutinize transactions in the accounts they have responsibility for, using the monthly reports they receive from the accounting department.

#### **Role of the Board of Trustees**

The board of trustees, when necessary, deals with vendor complaints that have not been resolved by district officials. Otherwise, the board has chosen not to be actively involved in purchasing operations, but to set policy and let its senior managers manage. It holds the secretary-treasurer responsible for financial and administrative activities, including purchasing.

In all districts we visited, boards had delegated the responsibility for management, including management of purchasing, to their senior officials. However, in none of them did we find a systematic method by which officials reported to their board on their stewardship over purchasing.

#### ***Good Value Through Requirements Planning***

Low-cost, occasional purchases may require nothing more than a phone call to a local retailer. More

significant purchases, however, require planning and investigation. For bulk purchases, staff need to collect information on past use and project the likely demand for at least the next year. For strategic purchases, staff need to think about the future implications of purchase decisions and to make sure those decisions fit with district plans. For purchases that are frequent or have maintenance or training implications, staff need to consider whether standardizing brands, models, or specifications would give best value for the district.

#### **Information on Past Use**

The district uses information on past use appropriately when completing bulk orders, both those handled by district staff and those handled by the schools directly. Staff estimate their requirements for the upcoming year based on past usage information and the current level of inventory.

The district does not collect information on past use of maintenance supplies, because these supplies are mainly bought as needed, from standing offers with local suppliers. The district has negotiated a standard discount on all supplies bought locally.

#### **Planning**

In the school districts we visited, three aspects of planning had important implications for purchasing: the integration of technologies such as microcomputers into the schools, the opening of new schools, and the management of textbooks, other learning resources, and library resources.

The district's technical advisory committee has recently drafted a



five-year technology plan to guide the acquisition of computers. The committee has representation from the board, maintenance and finance staff, and school and district senior administration. Currently, each school determines how much money it wishes to allocate for the purchase of computers. Schools that are upgrading can sell their old computers to other schools in the district and apply the money toward the purchase of new computers.

At the time of our audit, Peace River North school district had not opened a new school within the last year, so we were unable to examine the process.

District management allocates funds for texts and other learning resources to the schools based on the requirements of the district as a whole. Each school's principal, working with department heads and teachers, then determines the school's priorities and how it will use its allocation.

Before buying textbooks and other learning resources, schools see if they can borrow them. Schools exchange information on what they have and what they need, and loan out their surplus resources. As in most other districts we visited, records on texts and other learning resources are maintained on an ad hoc basis, with some schools having systematic methods of keeping inventory and others having no current records at all. The lack of formal inventories makes the sharing of information more difficult and may result in schools ordering texts that could have been borrowed from another school.

Schools maintain their own records of library resources. In an

effort to implement a computerized library management system across the district, the school board has allocated funds for the next five years to pay half the cost of each school's system. This system will allow schools to track their inventories quickly and easily, and to exchange information with one another. Schools can then decide whether to borrow the books from another school or to order copies of their own.

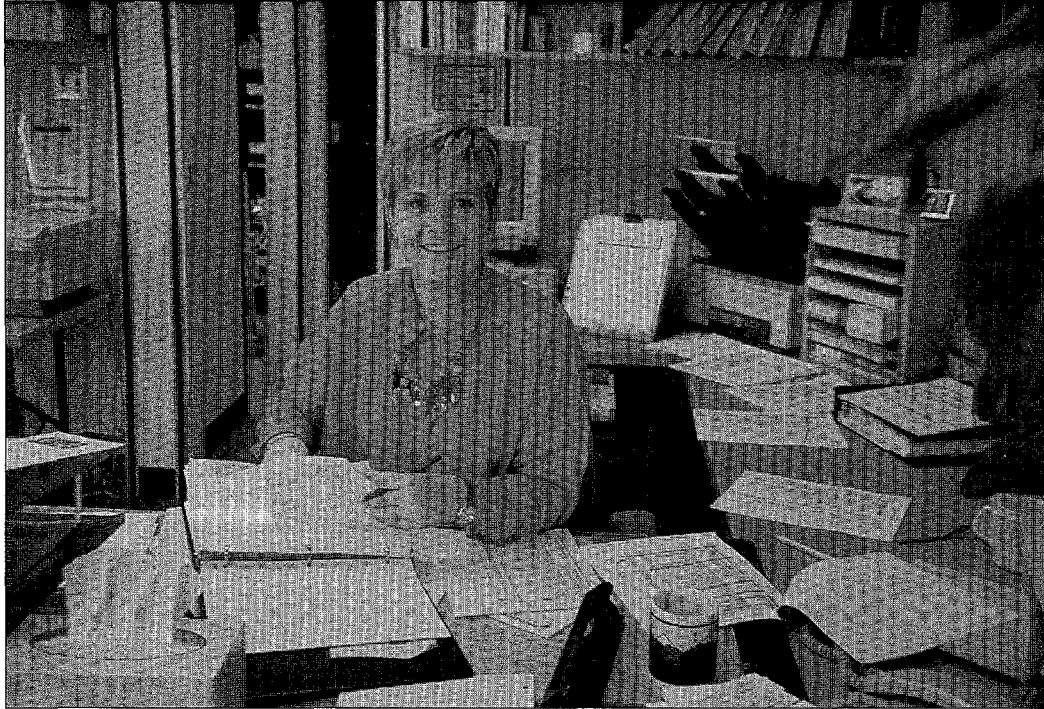
#### **Standardization**

The district has appropriate processes for standardizing products where doing so is beneficial. The district technical advisory committee has established a standard for computers that all schools within the district must follow. Maintenance staff, in conjunction with the resource center, have developed recommendations for audio-visual equipment. Schools make use of these recommendations, but they are not required to follow them.

At one point the district had decentralized janitorial services, so individual schools chose and purchased their own cleaning products. However, in order to maintain consistent levels of cleanliness across the district, control of janitorial services was transferred back to central management. The janitorial supervisor now establishes standards for janitorial supplies. These standards apply to all schools, including those where janitorial services are contracted.

#### ***Good Value Through Managing the Purchase Transaction***

Choosing what to buy is not the final step in purchasing economically. How the purchase transaction is carried out also affects



Courtesy of Peace River North (#60) School District

*Preparing the annual bulk order of stationery supplies*

the total cost. For example, a district may be able to make savings by using competitive tendering or by making purchases in cooperation with other districts. The measure of a district's success in this area is whether it can choose methods of supply that minimize the cost of goods acquired, including the cost of acquiring them.

### Competitive Tendering

Although district policy covers most aspects of purchasing, in our opinion it gives insufficient guidance as to when purchases should be tendered. The policy states that school supplies and equipment are to be "tendered at the discretion of District Staff, after first considering the time involved for coordination, distribution and accounting of bulk order, and tendering." More specific guidelines should be provided to staff to guide them in using the most appropriate purchasing method.

*Recommendation 1: The district should provide its staff with more specific direction on when purchases should be tendered.*

Policy requires that copies of written requests for tenders or quotations on major items and bulk orders be provided to the secretary-treasurer. However, we found that district staff were not aware of this requirement to maintain written information on important purchase decisions. Fuel was the only purchase for which there was documentation for us to review. In our opinion, the district needs to make sure that purchasers keep good documentation. This will help the district both in making future purchase decisions and in reviewing major spending decisions.

*Recommendation 2: The district should ensure that staff maintain appropriate records of purchase decisions.*



### Precise Contract Terms

The district does not have standard tender documents. Having a set of standard contract clauses would, we believe, benefit the district in several ways. First, a set of clauses covering the most likely contracting situations would remind staff to address all the areas that have to be covered in a contract. Second, drawing from a set of standard clauses would allow all district staff arranging purchase contracts to do so with the same level of skill and completeness. Finally, having a set of standard clauses available would likely reduce the time required to draft bid documents.

We are not suggesting that purchasing become rigid and bureaucratic, just that an organized approach to developing purchase contracts be adopted. We found similar contract weaknesses in most of the districts we visited, and believe that districts could save money by jointly developing standard contract language.

*Recommendation 3: Peace River North school district, perhaps working in concert with other districts, should develop a set of standard clauses to include in its purchasing documents.*

### Bulk Buying

The district makes bulk purchases where volume is sufficient to allow cost savings, as with photocopier paper, fuel, and school supplies for children, or where items are stored and distributed centrally, as with custodial supplies and maintenance materials. All other goods, including furniture, stationery supplies, and audio-visual equipment, are purchased directly by the schools.

Texts and other learning resources are purchased by each school, rather than being compiled into bulk orders by publisher at the district level. Other districts we visited compiled texts and learning resources at the district level to take advantage of volume discounts from publishers.

*Recommendation 4: The district should examine the costs and benefits of compiling school orders for texts and other learning resources into district-wide bulk orders.*

The amount of furniture purchased by the district did not warrant a bulk order. For most student furniture, the district reuses existing furniture; other furnishings are usually made in-house. To avoid high freight costs while at the same time establishing a standard image across the district, the maintenance staff produces high quality custom-made furnishings for the schools. To temper any tendency to overuse this resource, schools are charged for the materials and 50% of the labor. The "make" versus "buy" decision is, however, still weighted in favor of make and does not reflect the true cost of constructing the furniture. The district recognizes this and is considering the introduction of full costing to ensure optimal spending decisions.

### Ad Hoc Purchases

Minor purchases such as those for repair items are made as needed. The district has negotiated discounts with a small number of local suppliers, and maintenance staff are encouraged to allocate purchases on a rotational basis among the suppliers.



Courtesy of Peace RiverNorth (#60) School District

*Materials salvaged from the Cassiar School for use in the Hudson's Hope School*

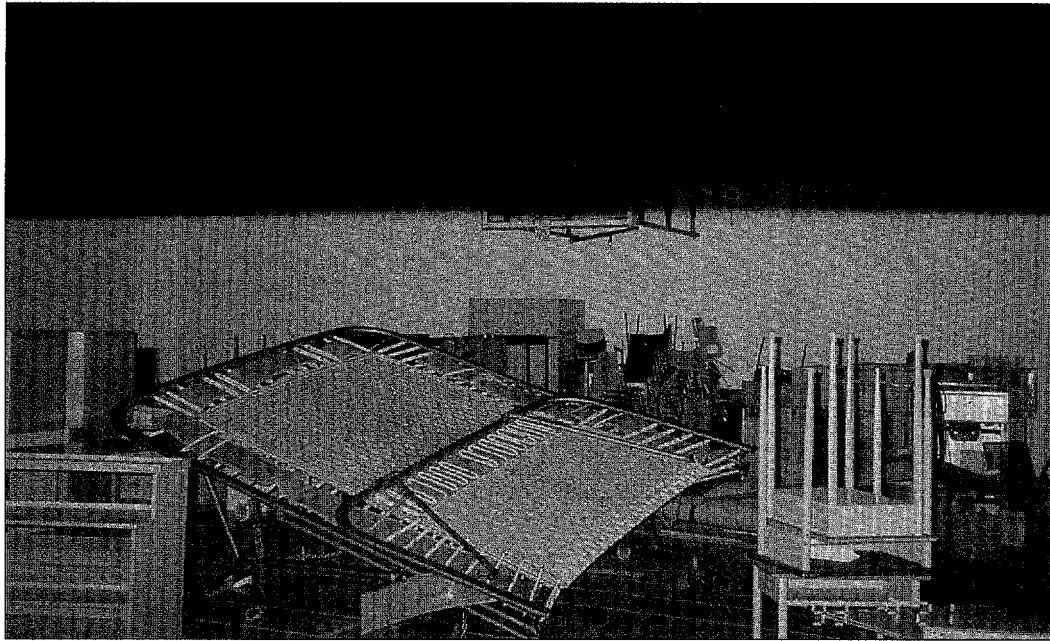
### Cooperative Purchasing

The district has proactively established networks with other community businesses and organizations for the purposes of sharing resources. For example, the district won a ministry competition to make use of materials from a recently built school in Cassiar which had closed. The district is using the materials from the Cassiar school to build a new school in Hudson's Hope, and has made arrangements to have B.C. Hydro temporarily store the materials in its Hudson's Hope warehouse.

Peace River North school district does not, however, actively seek out opportunities for joint purchasing. The district, like most others we visited, finds few perceived advantages in making joint purchases with other school

districts or local agencies. The time and effort to coordinate such purchases, and the need to change district standards sometimes to make joint buying possible, are seen by district staff as making cooperative purchasing more trouble than it is worth.

On the other hand, transactions that individually have only a small payoff for each district may, taken together, significantly benefit the province as a whole. For example, we were told that buying textbooks in bulk can result in savings of up to 20%. Districts may be able to achieve these savings by combining their orders with their neighbors' to gain sufficient volume. We believe that in many cases the extra cost of, say, having to coordinate deliveries in a number of districts would be more than offset by the public benefit.



Courtesy of Peace River North (#60) School District

*Equipment salvaged from the Cassiar School for use in the Hudson's Hope School*

*Recommendation 5: Senior management of the district, with their counterparts in other districts and public bodies, should examine the benefits of cooperative purchasing and, where possible, reduce obstacles preventing its use.*

#### Warehousing Materials for Economy

The computer repair shop maintains a small inventory of commonly used items such as disks, and the janitorial supervisor warehouses all janitorial supplies. Schools order from these

departments as needed, and the items are then delivered by the district's courier service.

For photocopier paper, the district negotiates a contract with a local supplier which includes the warehousing and delivery of the paper. Schools then order paper as needed directly from the supplier and the supplier delivers to the schools.







## Probity in Purchasing

When purchasing is carried out with public funds, there is an expectation that it will be done with probity—that is, honesty in fact and in appearance. Policies and procedures should therefore be designed with this goal in mind, and management should convey to employees that ethical values cannot be compromised.

### Conclusion

Although probity is not formally addressed in the district's policies, it is encouraged by the district's general management controls and the attitudes of its employees.

### Findings

Essentially, probity is an attitude rather than a policy or procedure. The corporate culture generally, and the example set by management specifically, are key to whether business is carried out honestly and with sound stewardship. In Peace River North school district, as in the others visited, we felt that the management and staff we interviewed shared a common attitude, namely, that the focus of their job was service to the district.

District policy states that purchases are to be made in the most economical way while "maintaining relationships with suppliers on a fair and ethical basis." However, it does not provide staff with formal guidelines on conflict of interest. We think that such guidance is particularly important to have when

purchasing is delegated to staff who are not purchasing specialists. Confidence in public purchasing rests partly on appearance, and clear policies are a signal that probity is taken seriously. Staff need to know what the district's expectations are so that they do not inadvertently find themselves damaging the public's perception of the district. An issue such as conflict of interest, for example, can have a wide range of definition. Are employees in conflict if they sell goods to the district? Does it matter whether they can influence the buying decision? What about sales by their friends or family? Clear policies on this and other such issues would aid both the reality and the appearance of probity.

*Recommendation 6: The district should document its policies related to probity so that staff and the public fully understand the district's expectations.*

Policies designed to encourage good value also encourage probity. For example, competitive tendering puts purchase transactions under a spotlight, exposed to the scrutiny of district staff and interested suppliers.

The district does not monitor the probity of purchase transactions specifically, but encourages it by, for example, having formal management controls over the events surrounding the purchase decision. These controls ensure that those who initiate or approve transactions are authorized to do so, that purchase transactions are charged to the appropriate accounts,



and that accounts have sufficient funds to cover the purchase. Although these management controls were outside the scope of our audit, nothing we found during

our audit gave us cause for concern about them.





## Equitable Treatment of Suppliers

Purchasers in the public sector are expected not to show any supplier favoritism. Who gets an opportunity to bid, how products are specified, how bids are responded to, and how the winning bid is chosen all affect how equitably suppliers are treated.

### Conclusion

The district's purchasing methods are generally sufficient to ensure that suppliers are treated equitably.

### Findings

District policy requires that "all responsible bidders shall be given equal consideration and the assurance of unbiased judgment in determining whether their product meets specifications and the needs of the School District."

Staff involved in purchasing are also expected to ensure that competition for the district's business is maximized. Individual schools maintain their own lists of potential suppliers for each of the purchase streams. Suppliers are added to these lists as staff become aware of new products or vendors.

The district's product specifications do not unduly restrict

suppliers' opportunities to bid. For most products, the district specifications are based on features rather than brand names. Where brand names are specified, alternatives will also be accepted if they prove, on testing, to be equivalent in performance.

The district also has appropriate procedures for receiving bids, responding to them, and selecting the winner from among eligible bidders.

Although staff are generally aware of the policies and follow them, we did note two instances of deviation from the policies. In both cases, staff members gave one bidder a chance to meet the terms offered by another bidder, but did not offer the same opportunity to all the bidders. The staff members involved were unaware of the equity implications of their actions.

*Recommendation 7: The district should ensure that staff involved in purchasing understand the policy relating to the equitable treatment of suppliers and the reasons for it.*





## Use of Local and Regional Suppliers

Governments sometimes use their purchasing power to achieve economic or social goals such as encouraging local industries. Although such choices are more common at the provincial or national level, we looked to see whether this school district had such policies and, if so, how well it carried them out.

### Conclusion

Policy and practice in the district combine to encourage the use of local suppliers whenever they are competitive with outsiders on price and quality.

### Findings

District policy states that local "vendors are to be given every

opportunity to bid on School District contracts," and "where quality, price, availability and service are equivalent, preference is to be given to Canadian manufactured goods, supplied by firms established in Fort St. John, British Columbia, or Canada, in that order." We found that staff were aware of the policy and appropriately encouraged the use of local and regional suppliers. Local firms are encouraged to bid on all competitions and tenders. However, they are not given special preference. Price and, where applicable, service and quality are the deciding factors.



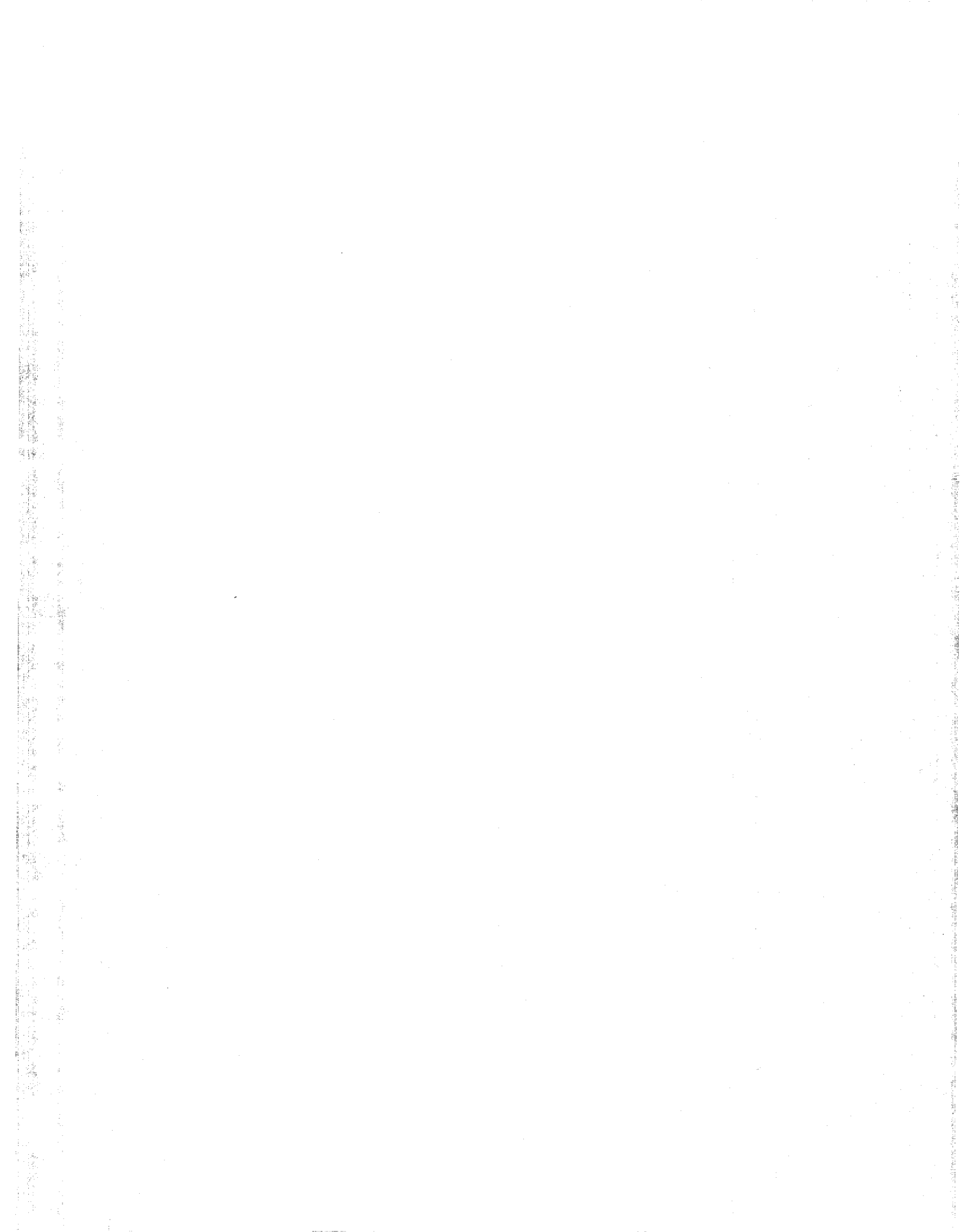
# **AUDITOR GENERAL**

*Value-for-Money Audit*

**PURCHASING IN SCHOOL DISTRICTS**

*Purchasing in Surrey (#36) School District*







## Purchasing in School Districts

# Purchasing in Surrey (#36) School District

### Audit Purpose and Scope

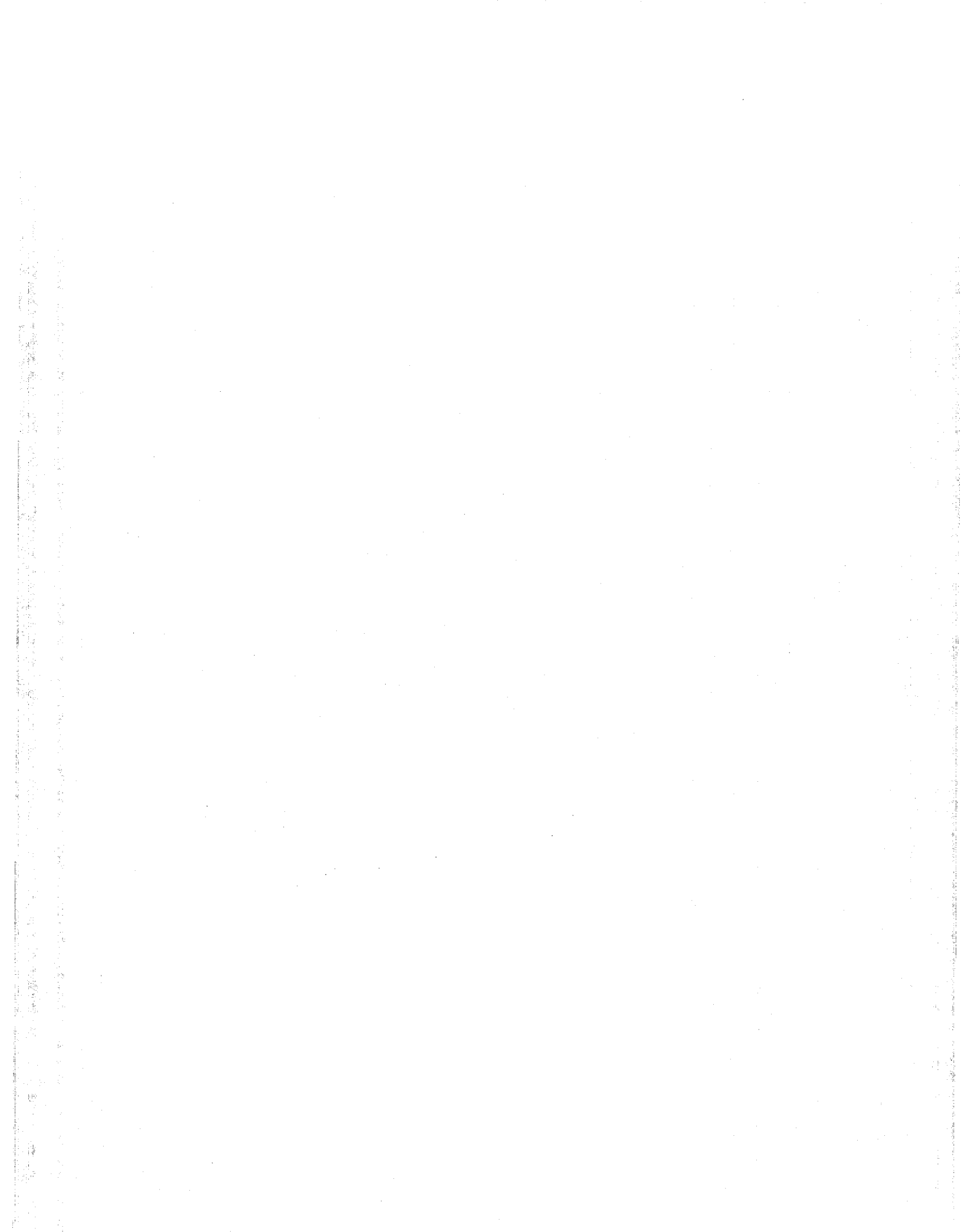
We conducted our audit to determine whether the purchasing methods of Surrey school district ensure that the district is getting good value when acquiring supplies. Getting good value means obtaining the right goods to meet the specified need at the lowest overall cost, including the cost of acquiring the goods. Doing this requires that responsibilities be properly assigned, training be provided as necessary, performance be monitored, and sound purchase techniques be adopted. Furthermore, purchasing activities must be carried out with probity and suppliers must be treated equitably.

We focused our audit work on purchasing policies and processes in place in the district in the 1993/94 school year. We also looked at the history of a process when it helped us better understand the current situation. Our audit did not include an examination of whether the school district made good use of the materials it bought; we looked only at the ways the materials were acquired. Also, we did not examine the purchase of services.

### Overall Conclusion

Surrey school district carries out, controls, and monitors its purchasing activities using methods that are sufficient to ensure that probity is encouraged, and that suppliers are generally treated equitably. However, they are not sufficient to ensure that the district always gets good value when acquiring supplies.









## Understanding Purchasing in Surrey School District

School District #36 (Surrey) serves Cloverdale, Surrey, White Rock, and the surrounding area. In enrollment, it is the second-largest district in the province, with about 46,000 students in 80 elementary schools (Grades K-7), 1 elementary-secondary school (Grades 1-12), 5 junior secondary schools (Grades 7-10), and 9 secondary schools (Grades 8-12). Its enrollments range from 69 to 1,900. The district's 2,950 full- and part-time teachers are supported by 182 principals and vice-principals and approximately 1,200 district support staff, such as teaching assistants, clerical staff, custodians, maintenance workers, and district administrators. To operate and support these schools in 1993/94, the district had an operating budget of \$284 million, mainly funded by the provincial Ministry of Education.

In Surrey school district, all purchase transactions except those from petty cash or from standing orders must pass through the district's central purchasing department, which in 1992/93 purchased \$25 million of goods (including equipment and furniture for new schools). The district also operates a central warehouse for maintenance and custodial supplies.

District management informed us during our audit that the Surrey Teachers' Association carried out job action against the district from January 4 to June 2, 1993. It believes this job action affected the district's normal purchasing process and contributed to some of the purchasing problems we observed during our audit, especially in equipping new schools and in timely

delivery of textbooks. We believe that the job action had some effect on the purchasing activities we examined but, because our audit did not examine conditions prior to the job action, we are unable to conclude on how much it contributed to the problems observed.

### *Major Purchase Streams in the District*

In the school districts we visited, we identified four main purchase streams: educational resources, educational commodities, educational equipment, and maintenance materials.

Educational resources include library materials, texts, and other learning resources. Educational commodities include paper and other stationery supplies, art supplies, physical education supplies, industrial education supplies, and science supplies. Educational equipment includes audio-visual equipment, furniture, computers, and photocopiers. Maintenance materials include maintenance supplies, janitorial supplies, and fuel.

Within the four main purchase streams, we found that purchasing in Surrey school district takes the following forms:

#### **Educational Resources**

The district resource center informs schools of the choices available to them in textbooks and other learning resources, and assembles requisitions from the schools. These requisitions are passed on to the purchasing department, which bulk-orders the requested resources.



Library materials are selected by school librarians. Their requisitions are approved for budget purposes by the district resource center and then are passed on to the purchasing department, which orders the materials.

**Educational Commodities**

The purchasing department annually assembles a bulk order for most of the stationery and other supplies used in schools. These supplies are delivered directly to the schools at the beginning of the school year. Photocopy paper is also bulk-ordered, but is stored in a rented warehouse and delivered to schools as they need it.

**Educational Equipment**

Photocopiers are bought in bulk by the purchasing department, guided by advice from a district copier machine committee, and are assigned to schools according to the copy volume processed by the school. Furniture, audio-visual equipment and computer requisitions from schools are often

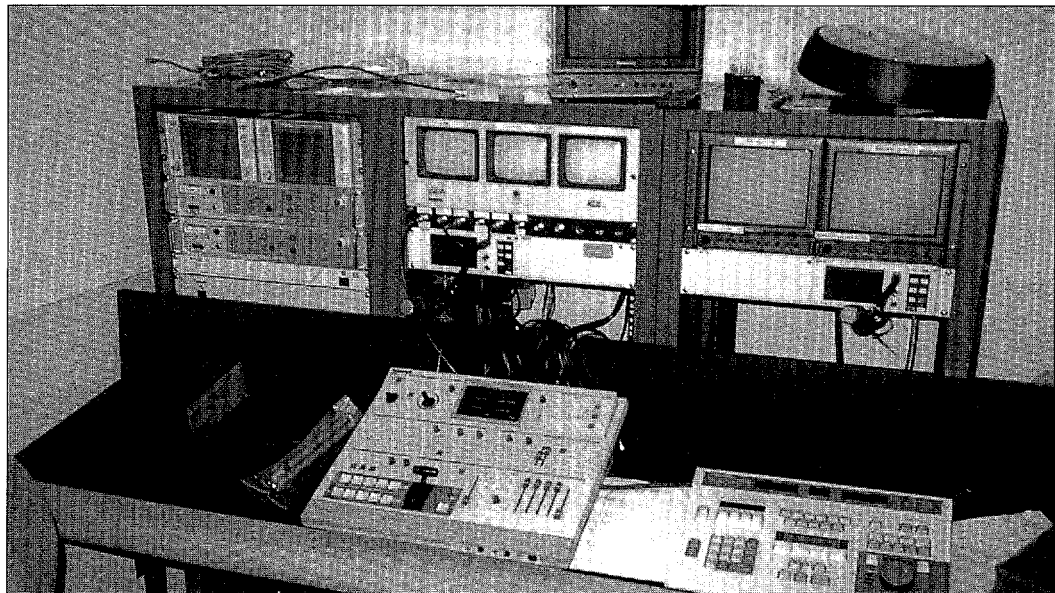
combined into bulk orders by the purchasing department, especially when the requisitions are for new schools.

**Maintenance Materials**

Most maintenance and custodial supplies are drawn from the central warehouse. Major items not stocked are individually ordered through the purchasing department. Minor items not stocked are bought from local suppliers by maintenance workers using books of local purchase orders issued to them for this purpose. The purchasing department tenders supply contracts for vehicle and heating fuel.

. . . . .

We have organized our report into four major sections: "Good Value in Purchasing"; "Probity in Purchasing"; "Equitable Treatment of Suppliers"; and "Use of Local and Regional Suppliers."



*Modern secondary schools have high-technology equipment, such as in this TV studio classroom (Johnston Heights Secondary School)*

Courtesy of Surrey (#36) School District



## Good Value in Purchasing

### Conclusion

In our opinion, the methods used by Surrey school district for purchasing are not sufficient to ensure that it always gets good value, because of the district's weaknesses in:

- deciding who makes purchasing decisions;
- monitoring how well purchasing is done;
- equipping new schools;
- setting standards;
- using competitive tendering efficiently; and
- bulk buying cost-effectively.

### Findings

#### *Good Value Through Organization*

Purchasing is more apt to be carried out with economy if responsibilities for specific areas of purchasing are clearly laid out, and if management ensures that purchasers have the training and skills to carry out their assigned responsibilities.

#### *Assignment of Responsibility*

Policy makes it clear that all but minor purchases and standing-order purchases must go through the purchasing department. However, exactly where responsibilities are divided between the purchasing department and the schools is often unclear. For non-bulk orders, the purchasing department sometimes accepts the supplier recommended by the school. Other times, especially for purchases of significant cost, it does not.

The idea of concentrating the purchasing department's efforts in areas where there are significant cost or quality payoffs is a good one. However, benefits are lost when the rules are not clear and schools duplicate the work of the purchasing department in researching products and suppliers. School staff end up being irritated when they believe that their efforts are wasted, and inclined to dismiss the purchasing department's efforts. Purchasing department staff end up having to deal with disgruntled end users and sometimes with suppliers who thought they had made a firm sale to a school.

*Recommendation 1: The district should ensure that responsibilities for purchasing activities are clearly communicated, understood, and accepted by staff.*

#### *Needed Knowledge and Skills*

The district has developed job descriptions that set out the skills and knowledge it expects from its purchasing staff. In some cases these include requirements for formal training in purchasing. We found that staff had met this requirement and several were continuing with more training. Furthermore, purchasing department staff appear to have the necessary knowledge and skills to make use of the computer systems that the district has provided to the department.

#### *Gauging Performance in Achieving Good Value*

Good management of purchasing requires that performance goals be set, that



performance be judged against those goals, and that results be reported to those ultimately responsible—in school districts, the board of trustees.

#### Setting Performance Goals and Judging Performance

Policy states that one of the district's objectives is to procure quality goods and services at the least expense to the district. This objective is elaborated in the role description for the purchasing manager: "The primary goal of the [purchasing] department is to meet the realistic needs of product users by obtaining and maintaining the required quality of goods and services at the best possible prices and at the time needed."

We expected Surrey, a large school district with a professional purchasing department handling a large volume of purchases, to have developed effective ways for gauging how well it achieved this goal, in order to find out where inefficiencies lie and where process improvements would pay off. However, we were unable to find formal measures of performance against which several of the district's purchasing goals could be assessed.

Whether "best possible prices" were obtained is not examined in the district in a regular and systematic way—for example, by periodically comparing prices paid for a sample of goods to prices paid in the past, to prices paid by other districts, to commercial price indices, or to other appropriate measures. The purchasing manager compares prices to those paid by nearby districts and public bodies only informally, on an ad hoc basis.

Other elements in the goal statement above are also addressed

only informally. Although the purchasing department is receptive to concerns about product quality—it includes a response form with bulk orders sent to schools and consults with teacher committees about bulk-ordered supplies—it does not examine regularly and systematically whether the whole range of goods purchased are of "required quality," are able to meet "the realistic needs of product users," or are available "at the time needed" (for example, by surveying customers of the purchasing function to determine their satisfaction with quality and timeliness).

*Recommendation 2: The district should develop more formal measures for gauging the extent to which its purchasing objectives are achieved.*

#### Role of the Board of Trustees

The board of trustees, when necessary, deals with vendor complaints that have not been resolved by district officials. Board members are also regularly informed of active tenders, and they have the option of attending public tender openings. Otherwise, the board has chosen not to be actively involved in purchasing operations, but to set policy and let its senior managers manage. The secretary-treasurer, both directly and through the superintendent, is responsible to the board for financial and administrative activities, including those of the central purchasing department.

In all districts we visited, boards had delegated the responsibility for management, including management of purchasing, to their senior officials. However, in none of them did we find a systematic method by which officials reported to their

board on their stewardship over purchasing.

### *Good Value Through Requirements Planning*

Low-cost, occasional purchases may require nothing more than a phone call to a local retailer. More significant purchases, however, require planning and investigation. For bulk purchases, staff need to collect information on past use and project the likely demand for at least the next year. For strategic purchases, staff need to think about the future implications of purchase decisions and to make sure those decisions fit with district plans. For purchases that are frequent or have maintenance or training implications, staff need to consider whether standardizing brands, models, or specifications would give best value for the district.

### *Information on Past Use*

The purchasing department has an automated system for collecting information on past demand for

school supplies bought in bulk. For example, it is able to give each school a copy of its previous year's bulk purchases as a guide for deciding its current year's needs.

### *Planning*

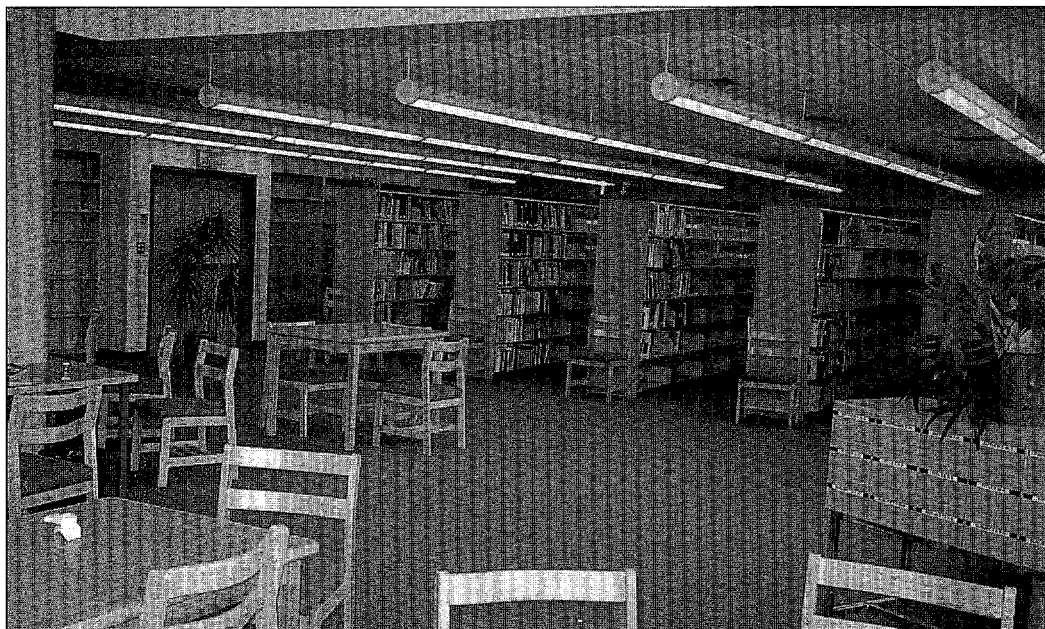
In the school districts we visited, three aspects of planning had important implications for purchasing: the integration of technologies such as microcomputers into the schools, the opening of new schools, and the management of textbooks, other learning resources, and library resources.

### *Integrating Technology into Schools*

Surrey district has recently established a task force on technology to set standards and determine needs for a range of equipment including computers.

### *Opening New Schools*

Planning for new schools is an important task in Surrey, a rapidly growing district. Until recently, the



Courtesy of Surrey (#36) School District

*Purchasing for a new secondary school library includes furniture, books, and computer equipment (Elgin Park Secondary School)*



district's growth was in elementary schools, but in the past few years it has built and opened a number of new secondary schools. For example, in 1994/95 it plans to open two new elementary and two new secondary schools.

Building, equipping, and opening a new school is a project—a time-limited task requiring special skills and knowledge—rather than a continuation of the day-to-day running of a school or district. The most critical element in successfully managing a project is a clear assignment of responsibilities: who does what? We found that responsibility for purchasing for new secondary schools was unclear or divided. Sometimes the purchasing department kept control; sometimes it left major decision-making power to the principal of the new school. For a short while the district had a coordinator for new secondary schools, and this individual was also involved in school purchasing. We believe these overlapping responsibilities have led to confusion and duplicated effort.

The second essential element for good project management is a handbook setting out what has to be done and how to do it. The district had produced documentation on opening new elementary schools but, at the time of our audit, could only supply piecemeal guidance to those responsible for opening new secondary schools.

The third essential element for good project management is a well-defined and well-controlled scheduling process. A project as complex as opening a new school involves a large number of people and organizations. It is critical that they know when they are needed,

that they schedule enough time to carry out their duties, and that timetables be reworked and updated as needed.

We found that some timetables and schedules existed, but were unable to find any formal scheduling process being used for the purchasing aspects of new school openings in the district. Such a process would include not only producing timelines and schedules but, equally importantly, using them as dynamic management tools: revising them regularly to take account of progress and problems to date, and using them for coordination and evaluation.

Furthermore, timing problems were evident. For instance, principals were not usually informed of their appointment to a new school until close to the school's expected opening date, and were not in place early enough to make the important purchasing decisions that should have fallen to them. Also, they did not always have secretarial assistance at the time they needed it most—when major purchases should be made.

Another timing problem we observed was that important decisions had to be made at short notice or inconvenient times. For example, the furniture requisitions for several new schools opening in September 1993 were not ready for tendering until the summer of that year. When the purchasing department decided—for reasons of speed and economy—to standardize these orders, it had to make choices without consulting school officials, because schools had by then shut for the summer and staff were on vacation.



As a consequence of these problems, schools sometimes have to open before they are fully equipped, so teachers and students have difficulty in working effectively and schools incur extra costs such as for the renting of furniture, photocopying of teaching material, and rush installation of equipment and furniture. Another consequence is that any shortcomings in equipment or furniture choices have long-term effects; schools will not soon have the chance to replace equipment or furniture that does not meet their needs. A further consequence of these problems, and one of concern we believe, is that they can contribute to adversarial relations between district administrative staff and school staff.

At the time of our audit the district was working on several initiatives which should improve its process for equipping new schools, such as developing standard catalogs of school equipment and scheduling more time for purchasing steps that caused bottlenecks in previous years. However, we believe that given the magnitude of the purchasing task and its long-term impacts on schools, further improvements are needed in setting out responsibilities, managing time, and laying out the detailed steps that have to be carried out in equipping a school.

*Recommendation 3: To improve its process for equipping new schools, the district should:*

- *Make clear assignments of responsibility, and ensure that those individuals given responsibility are appointed early enough and given sufficient resources to allow them to carry out their responsibilities.*

- *Manage time better, for example, by making use of scheduling software to work out and meet timelines.*
- *Ensure that those responsible for equipping new schools are supplied with current and complete written guidance on their tasks, and on the best way to accomplish them.*

The written guidance could build on the work the district has already done in documenting some of the steps in opening new schools. It should make use of the experiences and advice of Surrey principals who have opened new schools recently. Documentation and ideas from other districts which have recently opened new schools could also be incorporated.

#### *Managing Educational Resources*

In order to prepare their requisitions for learning resources, most schools take inventory of their textbooks and other learning resources at year end, and some follow this up by tracking missing texts and ensuring that students return all the texts issued to them.

Schools also keep track of their own library holdings. Recently built schools have computerized cataloging and checkout procedures to do so, as well as electronic security systems to minimize book losses.

#### **Standardization**

The district has been successful in obtaining the benefits of standardization—such as lower transaction costs, lower prices through bulk buying, and lower training and repair costs—when the reasons for doing so are accepted by the schools or other end users of the products. For example, custodial



supplies are standardized according to the advice of the district custodial manager, who tests materials in the schools and consults with custodial managers in other districts before recommending standards. A similar process is used for selecting custodial equipment.

For audio-visual equipment, district specialists choose standard brands and models, then circulate a catalog to the schools. Schools order from the catalog through the purchasing department. The process works because the district specialists look for the same qualities in equipment that the schools do: simplicity, longevity, and easy maintenance.

However, what qualities should be emphasized in furniture purchases is an area of conflict. Schools want reliable, low-maintenance furniture because they find it difficult to get funds to replace furniture that fails prematurely. They invest considerable effort in choosing appropriate furniture by, for example, having a committee of teachers work out specifications, having students test demonstration furniture, or visiting factories to see how well the furniture is made.

In recent years the need to get new schools equipped and opened on time has been paramount, so the department has focused on standardizing furniture purchases. This is a reasonable response to the pressures faced by the department, but means that school choices, even well-researched ones, may sometimes be overridden. This in turn perhaps contributes to an erosion of morale.

At the time of our audit the purchasing department was working on a standard furniture catalog, with

specifications and photographs of recommended models. We believe such a catalog could help both the schools and the purchasing department, by giving schools an effective choice, saving them time and effort in researching their needs, and speeding up the order process for the department.

*Recommendation 4: The district should develop more appropriate methods for gathering information on furniture use in schools, deciding on standards, and communicating both the standards and the reasons for them to all interested parties.*

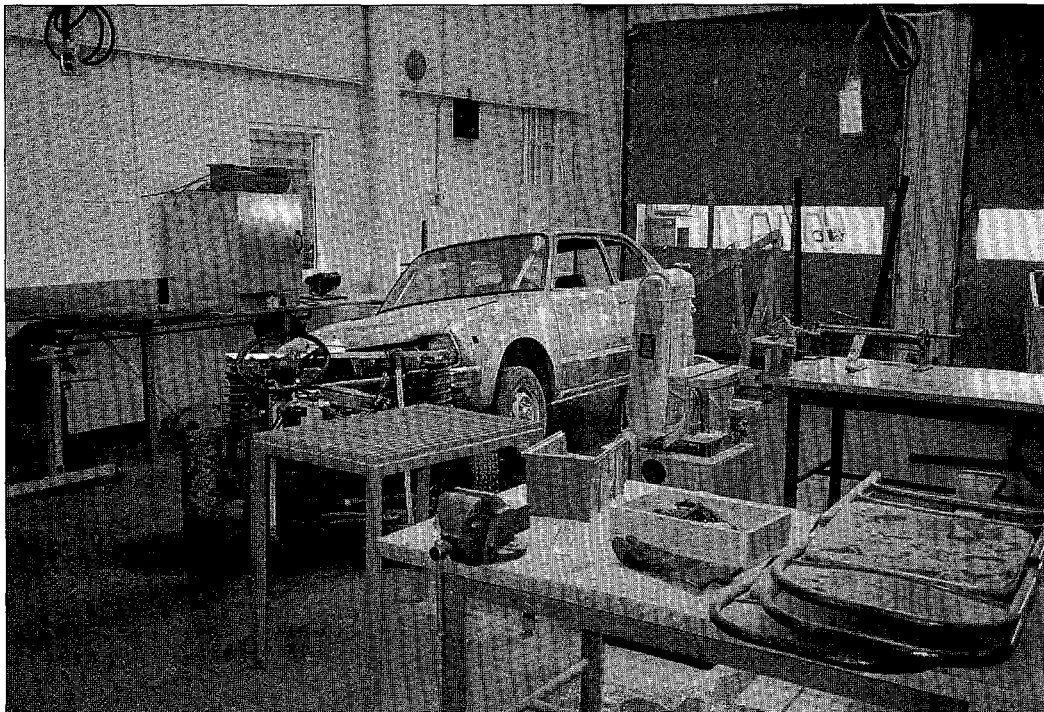
#### **Good Value Through Managing the Purchase Transaction**

Choosing what to buy is not the final step in purchasing economically. How the purchase transaction is carried out also affects the total cost. For example, a district may be able to make savings by using competitive tendering or by making purchases in cooperation with other districts. The measure of a district's success in this area is whether it can choose methods of supply that minimize the cost of goods acquired, including the cost of acquiring them.

#### **Competitive Tendering**

District policies require that all purchases of individual items over \$2,500 or groups of items over \$10,000 be competitively tendered. Except in special circumstances, invitations to tender are sent to all companies on the bidders' list for that commodity. The district advertises annually to inform all interested parties of the kinds of goods it will be buying in the coming year. A vendor need only send in a written request to be added to the bidders list.





Courtesy of Surrey (#36) School District

*Automotive shops, as here at Johnston Heights Secondary School, need complex industrial equipment*

What the district lacks, however, is an organized way of pre-qualifying bidders (outside of standing offers) or of dropping those who, for example, have not responded to recent invitations to tender. As a result, invitations to tender are often sent to a large number of suppliers, even when purchasing staff believe that only a few can meet the tender requirements. For example, in one relatively small tender we examined, the purchasing department sent invitations to over three dozen companies on the bid list and analyzed tenders from the over two dozen who responded fully.

A 1991 internal audit of the purchasing department suggested that it would be cost-effective to raise the present limit above which tenders must be used, so that for many transactions only selected suppliers would be asked to quote,

rather than everybody on the complete bidders' list. We believe this suggestion has merit. We further suggest that the district refine its bidders' list by dropping vendors who have not responded to several successive invitations, and by subdividing the tender lists so that specialists in one area are not automatically asked to bid on tenders more suitable for another kind of specialty supplier.

*Recommendation 5: The district should examine its policies and procedures on when to tender purchases and who to tender to, with the aim of balancing the costs and benefits of open competitive tendering.*

When reviewing transactions to understand the district's competitive tendering practices, we were usually able to obtain sufficient information to answer our questions about the transactions, but only by



interviewing the purchasing staff involved. This was necessary because we often had difficulty determining from the district's files how purchase decisions had been made. It was not always clear how the options presented by each vendor were weighed or what the reasons were for selecting the successful bid (if it was not the lowest), nor was relevant information in one place.

On significant transactions especially, these weaknesses in record-keeping have the potential to cause difficulties. It is hard for management to review a decision if key information is not available in an organized form. If a decision is being disputed, it is particularly important for senior staff to be able to inform themselves quickly of the key elements of the decision. Also, purchasing staff cannot easily build upon past experience if they must rely solely on the memories of those involved in past transactions. The value of memory is further reduced if a purchasing department is adding new staff members who do not share in this informal knowledge, as is happening in Surrey.

*Recommendation 6: The district should ensure that major purchase decisions are documented in a consistent and easily accessible way.*

#### **Precise Contract Terms**

In most of the transactions we examined, the district made use of a standard tender form that contained appropriate general conditions and instructions to vendors. However, there was less consistency in the drafting of specific conditions. For example, a tender for audio-visual equipment incorrectly implied that the contract price was to include delivery to a large number of

schools, when in fact the whole order was to be delivered to a single location. This error may have resulted in the district paying more than it should have, because careful vendors would have included the cost of multiple deliveries in their bids.

After observing the purchasing process and talking to the people involved in that process, it is our belief that tender drafting problems like this, and possibly also the documentation problems discussed above, are symptoms of the difficulty that purchasing staff have in keeping up with the large volume of work they face—work that leaves them little time to devote to each major transaction.

#### **Bulk Buying**

Surrey school district bulk-orders a large number of its purchases. The cost-effectiveness of this approach varies with the commodity. For standard goods, such as heating fuel and photocopy paper, bulk ordering works well. For other goods, the success of bulk buying depends on the measure used, as we found when examining the bulk purchasing of textbooks and other learning resources, and of stationery and other supplies for schools.

By buying textbooks and other learning resources in bulk, the district realizes significant savings—up to 20% on large orders. However, the process of bulking orders, approving them, and negotiating discounts is time-consuming and can delay the delivery of the books. Several of the schools we visited were still waiting for the last of their text orders, even though school had been in session for three months.



Courtesy of Surrey (#36) School District

*Secondary physical education requires specialized equipment, as in this weight training room (Lord Tweedsmuir Secondary School)*

We believe that delays in the purchasing process can be reduced sufficiently for the district to have both price discounts and timely delivery. We noted that, at the time of our audit, the district was making improvements to its textbook ordering system.

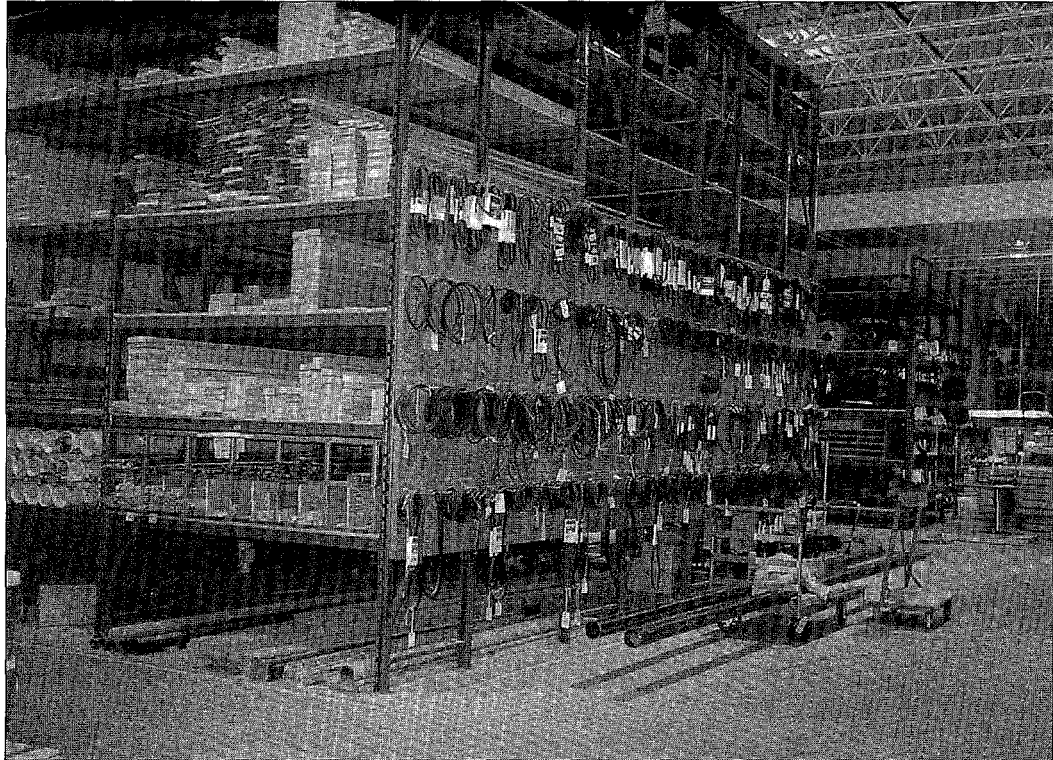
The annual bulk purchase of stationery and other supplies for schools achieves, we believe, its primary goal of obtaining best prices. However, the total cost of organizing and carrying out the bulk buy has not, in our opinion, been adequately considered. We noted three areas where these transaction costs appeared to be significant: use of purchasing department staff, extra processing steps because of the scale of the bulk buy, and handling and storage impacts in the schools.

This bulk purchase occupies one of the department's two buyers plus other department staff for several months a year, which

sometimes means that processing of other purchases is delayed. Furthermore, the volume of computer entry work for the bulk order requisitions is such that the department requires several person-months of temporary assistance.

Because the purchasing department needs time to assemble all the orders, schools must prepare their orders before they know their exact budgets for the coming year. This means that the purchasing department has to prepare draft copies of the school orders and send them back to the schools for final authorization once the schools have their budgets.

Bulk supply orders are delivered to the schools at one time—the beginning of the school year. As a result, schools often have a large number of separate deliveries to receive and process at an already busy time of year. Moving and storing this volume of supplies can



Courtesy of Surrey (#36) School District

*Central stores are an important service to the maintenance department*

be a problem. Newer schools have little storage space; older schools often have storage space in inconvenient locations. Furthermore, schools do not have staff whose job responsibilities include moving bulk materials. Some take staff away from their regular duties to move supplies; others have delivery into the school storage area made part of the purchase contract, at extra cost.

*Recommendation 7: The district should examine the cost-benefit of its systems for bulk buying.*

#### Ad Hoc Purchases

For purchases that do not lend themselves to being bought in bulk, and when the purchase is under \$10,000, the purchasing department asks for quotations from a selection of known suppliers. Small purchases are made directly by the schools, using petty cash. Maintenance staff

are issued books of local purchase orders, which allow them to go directly to the most convenient supplier for items not carried in the warehouse.

#### Cooperative Purchasing

The district is a member of a buying group with other school districts and public bodies in the lower mainland and has participated in some of their bulk purchases. In many cases, however, the purchasing department feels that because of the district's size, the prices it obtains on its own match or better the prices offered to the cooperative buying group.

#### Warehousing Materials for Economy

The district's warehouse is located in the central maintenance complex, along with its main customers (it does not stock supplies



for school operations). The warehouse was set up to replace a number of ad hoc storage facilities that existed before the recent building of the central maintenance complex. We found it to be well organized and well controlled. Staff carefully control access to the warehouse, and there are regular inventory counts.

However, we believe that it is important for the district to periodically reexamine the cost-benefit of having a warehouse and to

assess the methods by which it is operated. Such periodic scrutiny is necessary because there are, increasingly, cost-effective alternatives to operating one's own warehouse. For example, the district already makes use of a contracted warehouse service to store and distribute photocopy paper.

*Recommendation 8: The district should periodically examine the cost-effectiveness of its warehouse.*





## Probity in Purchasing

When purchasing is carried out with public funds, there is an expectation that it will be done with probity—that is, honesty in fact and in appearance. Policies and procedures should therefore be designed with this goal in mind, and management should convey to employees that ethical values cannot be compromised.

### Conclusion

Probity is given appropriate attention in the district's policies, and encouraged by the district's management controls and the attitudes of its employees.

### Findings

Essentially, probity is an attitude rather than a policy or procedure. The corporate culture generally, and the example set by management specifically, are key to whether business is carried out honestly and with sound stewardship. In Surrey school district, as in the others visited, we felt that the management and staff we interviewed shared a common attitude, namely, that the focus of their job was service to the district.

Surrey school district has a clearly stated policy on conflict of interest. Furthermore, district policies designed to encourage good value also encourage probity. For example, policy requires competitive tenders and public tender openings for major purchases. Competitive tendering puts purchase transactions under a spotlight, exposed to the scrutiny of district staff and interested suppliers.

The district has formal management controls over the events surrounding the purchase decision, such as controls to ensure that those who initiate or approve transactions are authorized to do so, that purchase transactions are charged to the appropriate accounts, and that accounts have sufficient funds to cover the purchase. These management controls were outside the scope of our audit, which did not include a detailed analysis of whether particular elements of the district's internal control systems were operating consistently.





## Equitable Treatment of Suppliers

Purchasers in the public sector are expected not to show any supplier favoritism. Who gets an opportunity to bid, how products are specified, how bids are responded to, and how the winning bid is chosen all affect how equitably suppliers are treated.

### Conclusion

The district's purchasing methods are generally sufficient to ensure that suppliers are treated equitably.

### Findings

Surrey school district is not restrictive in the way it selects which suppliers can bid on a tender. The way in which winning bids are chosen is also equitable. Normally, the lowest tender meeting the specifications will be accepted.

Product specifications are appropriately generic. Brand names are generally used as examples only. Unless the tender specifies no substitutions, vendors are encouraged to propose acceptable alternatives to the brand mentioned.

In reviewing a selection of purchasing transactions to help us understand the district's purchasing transactions, we encountered instances, which may be isolated, in which suppliers may have been treated inequitably. We believe, however, that they are symptoms of the problems discussed under "Good Value in Purchasing," above, rather than an indication of a disregard for equity.





## Use of Local and Regional Suppliers

Governments sometimes use their purchasing power to achieve economic or social goals such as encouraging local industries. Although such choices are more common at the provincial or national level, we looked to see whether this school district had such policies and, if so, how well it carried them out.

### Conclusion

Policy and practice in the district encourage the use of local suppliers whenever they are competitive with outsiders on price and quality.

### Findings

The district's policy is that local suppliers get no special preference, but will be chosen if competitive. The purchasing department acts in accordance with this policy: it buys from local suppliers who are competitive, but will buy from outside the district or region when price or quality are superior elsewhere.







## District Response

*Although this is the first Value for Money Audit of the School District that has been conducted by the office of the Auditor General, the Value for Money concept is not foreign to members of the senior business administration staff. Through an internal audit process, we conduct a similar type of audit on various aspects of the operation. Further, one member of senior staff was previously involved in Value for Money auditing when he was employed by the federal Auditor General. We mention this at the outset, because of the importance of those being audited having an understanding and an appreciation of the concept and the process of Value for Money Audits.*

*We believe that properly conducted, Value for Money Audits themselves have the potential of providing good value to the subjects of the audit and to those who are served by and benefit from the function or functions being reviewed. Presumably, this particular project will provide the Auditor General's Department and the Government of British Columbia with information that will be useful in determining whether there is value in directing the considerable resources that are needed to conduct a project of this nature.*

*It is realized, we are certain, that in addition to the resources provided by the Auditor General's Department for a project of this nature, the School District has itself had to provide a great deal of staff time during the audit process and planning. Following that process, further review and consultation occurred when the draft report was produced. While time*

*consuming, we believe that the process was generally beneficial and enlightening. While we may continue to disagree with a few Findings and Conclusions we are satisfied that the process was fair and handled in a very professional manner.*

*Our response to the Recommendations and the Findings focuses on work that was in progress at the time of the audit that would have addressed the concerns; action that has been taken since the audit; intended action; and errors or disagreements.*

## Response to Recommendations

### Recommendation 1

*Although we have an organizational structure, role descriptions, Board Policies and Regulations that have been in place for some time which in our view clearly outline the responsibilities for purchasing in the District, we agree that there needs to be renewed effort in ensuring that school-based personnel have a better understanding of those responsibilities. In this regard we have recently sent a memorandum to the system outlining the restructuring of the Purchasing and Materiel Department and will be supplementing that memorandum with additional material to further clarify roles and responsibilities. Having the role of Purchasing accepted by staff as the Recommendation suggests is a much more difficult task. Most people believe that because they regularly purchase goods for themselves and their families that they have abilities that equal those of the Purchasing staff; and in our experience, some have a great deal of*



*difficulty accepting another person's decision on a tangible item. The training and experience working in the profession of public buying requires greater depth and knowledge of products and specifications, this must be understood and accepted by other staff in the District.*

### **Recommendation 3**

*The appointment of individuals prior to the opening of new facilities is always subject to the availability of resources. During a period when the Government is forcing school districts to limit administrative costs, every opportunity is taken to reduce administration costs. When funds have been available, the Board appoints administrative and clerical staff for new schools, well in advance of their opening which provides great assistance in areas such as Purchasing. Unfortunately, due to administrative costs being capped by the Government and priorities having to be determined within the capped budget, this would fall into a fairly low priority.*

*We are improving the handbooks which have been prepared for Administrators and other staff opening new schools and will continue to do so with the result that we expect to make considerable progress in the areas outlined in the second and third parts of Recommendation 3.*

### **Recommendation 4**

*We have already accomplished the objective outlined in Recommendation 4. As noted in the Findings, at the time of the audit, work was in progress in developing a catalogue. This has now been completed. School-based*

*personnel were involved in developing the standards and specifications.*

### **Recommendation 5**

*Work is already underway to review the tendering Policies and its Regulations with a view to updating them to reflect the current wishes of the Board of School Trustees. An objective of the review is to ensure that the Policies and Regulations are current with sound purchasing and economic practices appropriate for public sector organizations.*

### **Recommendation 6**

*For reasons outlined later in this response we disagree with the Findings of the auditors and therefore believe that there is no need to act on this Recommendation. The District is already providing appropriate documentation that is easily accessible. It is an established practice to note the reasons for awarding a purchase requirement to other than the low bidder on the tender documents.*

### **Recommendation 7**

*During the Policy review that was mentioned earlier, we will be examining the cost-benefit of our system of bulk buying.*

### **Recommendation 8**

*Our warehouse operation has been in existence for a short period of time. At appropriate intervals, the cost-effectiveness of the operation will be reviewed.*

## **Areas of Disagreement**

*We wish to place on record those aspects of the report with which we*



*disagree whether they be Findings or Conclusions.*

#### **Opening New Schools**

*Contained among the Findings of the Auditors was an observation that furniture and other requirements for the nine (9) new schools opening in the Fall of 1993 were not ready for tendering until the summer of that year. Although it was mentioned in the early part of the report, there was no mention, in this particular statement, of the fact that there was teacher job action that occurred from January to June 1993. The circumstances of a lengthy teacher job action and opening nine new schools were both most unusual.*

#### **Competitive Tendering**

*Contained in the Findings preceding Recommendation 6, the auditors indicated that they had difficulty locating information as to how decisions were made when other*

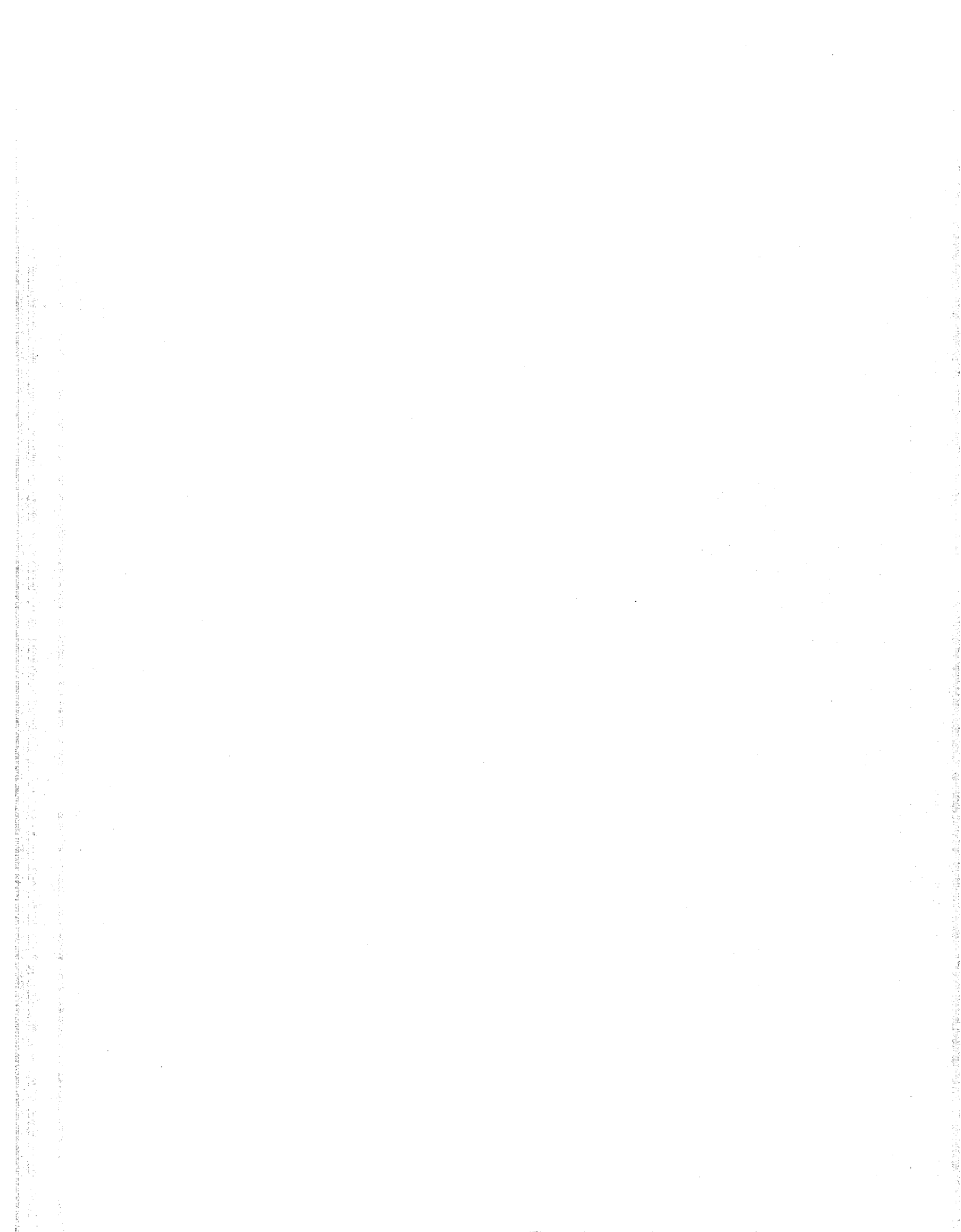
*than the lowest tender was accepted. For several years we have had a consistent means of recording that information in the files and in our view it is clearly understood by those who may be seeking that information.*

#### **Precise Contract Terms**

*While the auditors may have been accurate in describing the example used, we disagree with its use because it was an isolated incident and did not justify the Conclusion that there was "less consistency in the drafting of special conditions". It is common practice of the Purchasing and Materiel Department to order goods and services using F.O.B. destination terms.*

*We are confident that our comments to your report will assist in concluding this matter.*



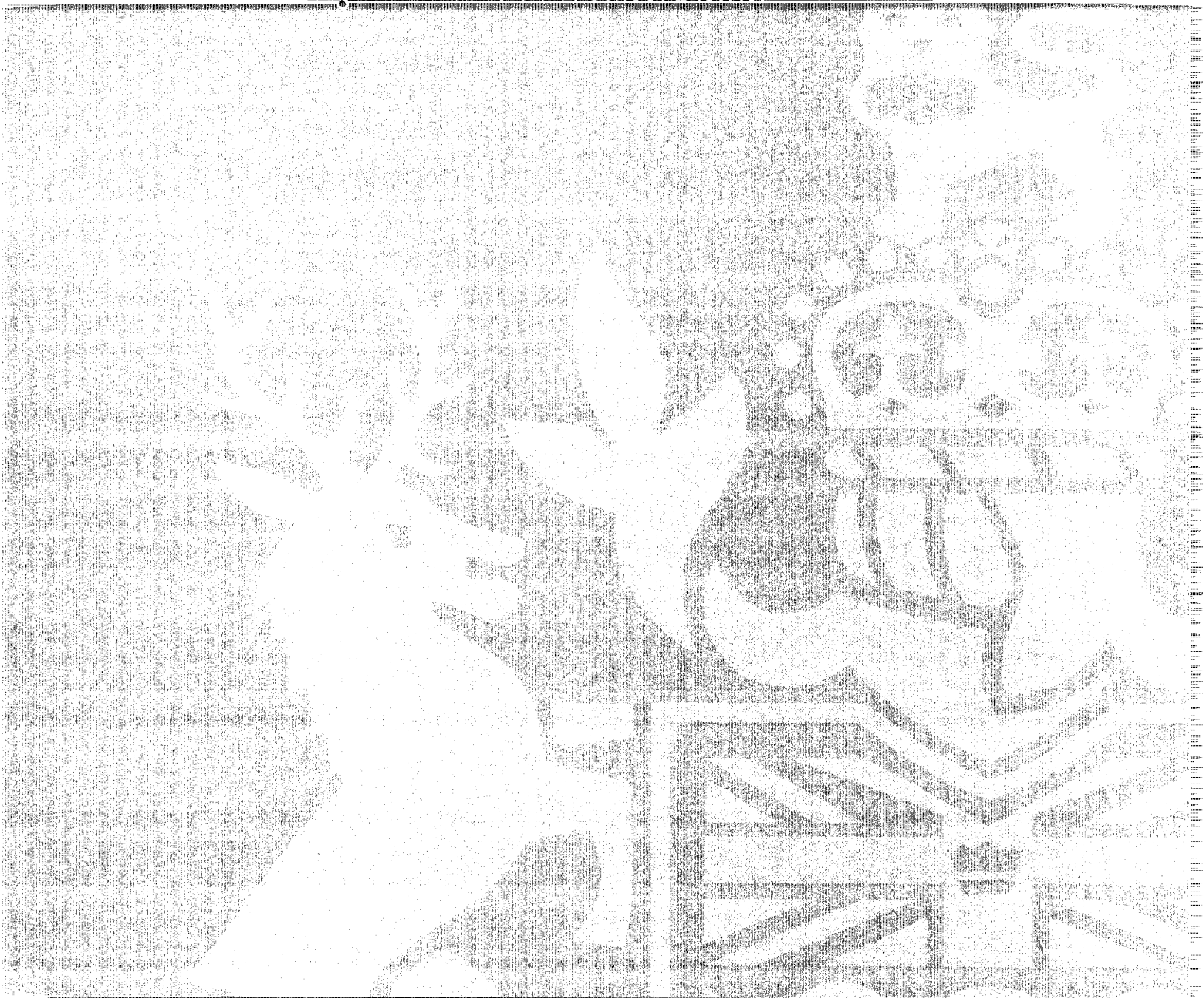


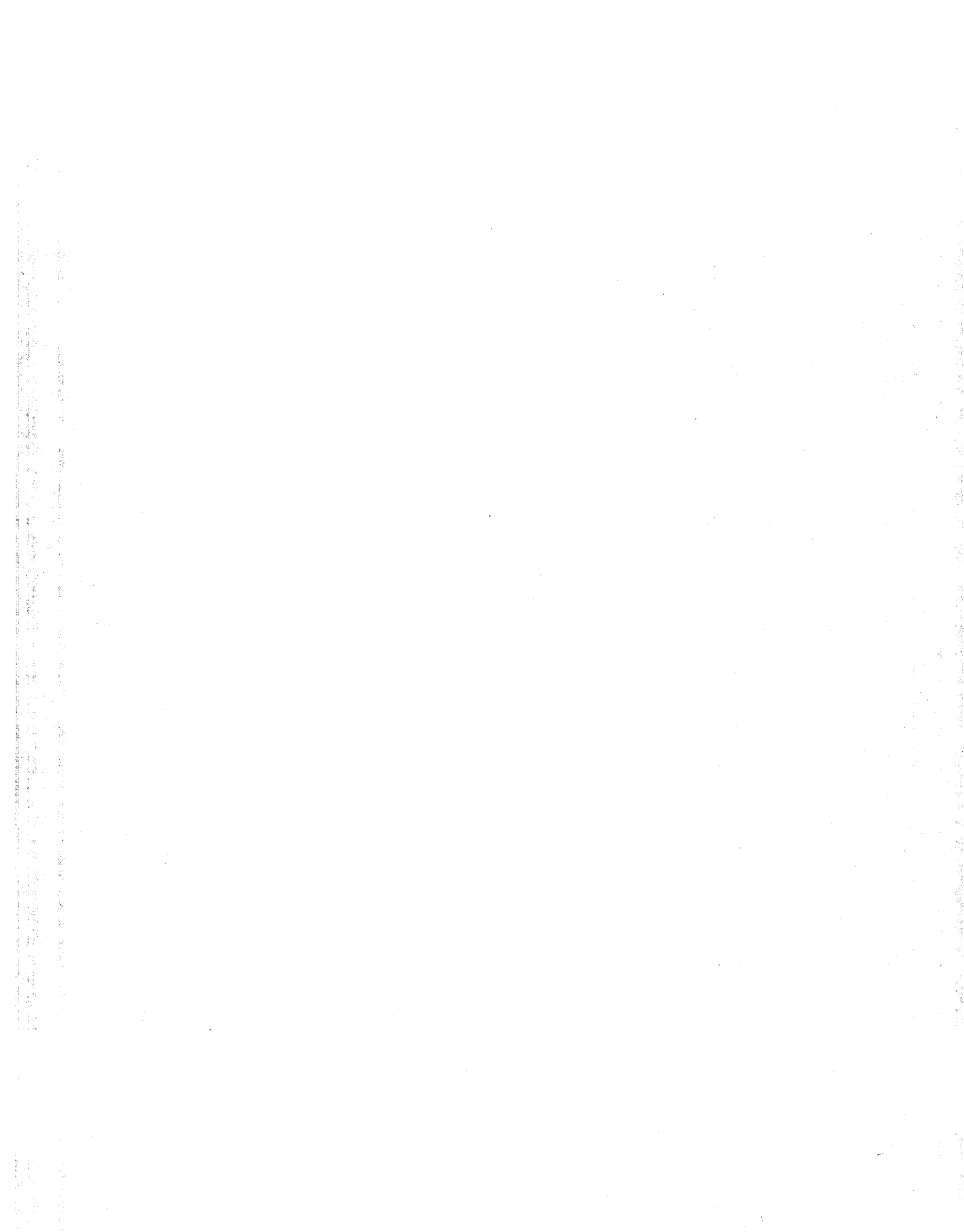
# AUDITOR GENERAL

*Value-for-Money Audit*

## PURCHASING IN SCHOOL DISTRICTS

*Purchasing in Windermere (#4) School District*







## Purchasing in School Districts

# *Purchasing in Windermere (#4) School District*

### **Audit Purpose and Scope**

We conducted our audit to determine whether the purchasing methods of Windermere school district ensure that the district is getting good value when acquiring supplies. Getting good value means obtaining the right goods to meet the specified need at the lowest overall cost, including the cost of acquiring the goods. Doing this requires that responsibilities be properly assigned, training be provided as necessary, performance be monitored, and sound purchase techniques be adopted. Furthermore, purchasing activities must be carried out with probity and suppliers must be treated equitably.

We focused our audit work on purchasing policies and processes in place in the district in the 1993/94 school year. We also looked at the history of a process when it helped us better understand the current situation. Our audit did not include an examination of whether the school district made good use of the materials it bought; we looked only at the ways the materials were acquired. Also, we did not examine the purchase of services.

### **Overall Conclusion**

Purchasing methods in Windermere school district are sufficient to ensure that it is getting good value when acquiring supplies, that probity is encouraged, and that suppliers are generally treated equitably.









## Understanding Purchasing in Windermere School District

School District #4 (Windermere) serves Invermere, Radium Hot Springs, Windermere, and the surrounding area. There are about 1,400 students in the district in 1 primary school (Grades K-3), 4 elementary schools (one with Grades 4-7 and three with Grades K-7), 1 elementary-junior secondary school (Grades K-10), and 1 secondary school (Grades 8-12). Enrollments range from 68 to 438. Also, the district is building a replacement secondary school, to open in 1994/95. The district's 93 full- and part-time teachers are supported by 9 principals and vice-principals, all of whom have teaching responsibilities, and approximately 50 support staff, such as teaching assistants, clerical staff, custodians, maintenance workers, and district administrators. To operate and support these schools in 1993/94, the district had an operating budget of \$9 million, mainly funded by the provincial Ministry of Education.

Windermere school district uses a system of school-based management: that is, each school is given a budgeted amount from which it must cover most of its costs, including purchases. Schools purchase their own goods and equipment, except for textbooks, other learning resources, and computers.

The accounting for school activities, including purchasing, is managed centrally. Other central services are building maintenance, building cleaning, and bus transportation. Purchasing for these areas is done by the manager

responsible for them; the district does not have a central purchasing department or central warehouse.

### *Major Purchase Streams in the District*

In the school districts we visited, we identified four main purchase streams: educational resources, educational commodities, educational equipment, and maintenance materials.

Educational resources include library materials, texts, and other learning resources. Educational commodities include paper and other stationery supplies, art supplies, physical education supplies, industrial education supplies, and science supplies. Educational equipment includes audio-visual equipment, furniture, computers, and photocopiers. Maintenance materials include maintenance supplies, janitorial supplies, and fuel.

Within the four main purchase streams, we found that purchasing in Windermere school district takes the following forms:

#### **Educational Resources**

Buying of texts and other learning resources is coordinated by a district committee. The committee divides the available funds among grades and subject areas, chooses which learning resources will be bought, bulk-orders them, and allocates the new resources among the schools.

Each school buys its own library resources. However, the district resource center provides



coordination and teacher-librarians share information from school to school.

**Educational Commodities**

Stationery and other supplies are bought in two ways. Photocopy paper is the largest single item, large enough that it is worthwhile for the district, on behalf of the schools, to tender an annual bulk order. Other

educational commodities are bought directly by the schools as needed.

**Educational Equipment**

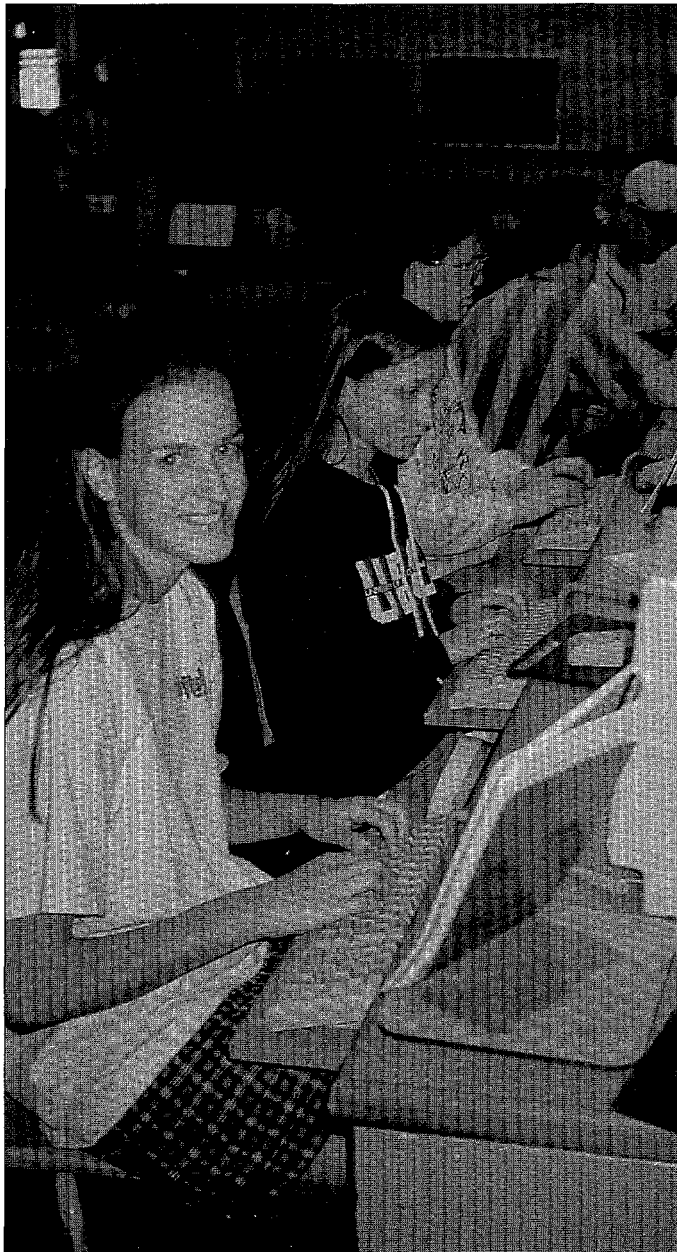
School equipment is also purchased in two ways. Schools buy their own furniture, photocopiers, and audio-visual equipment. Computers, on the other hand, are a district resource. A district technical committee develops a five-year technology plan (updated annually) and allocates funding according to the plan. The district resource center then buys the equipment for the schools.

**Maintenance Materials**

Maintenance and support supplies are bought in bulk whenever this is cost-effective. The maintenance supervisor tenders multi-year supply contracts for fuel and annual bulk purchases for custodial supplies. Maintenance supplies such as plywood are bought in bulk through competitive quotes. Miscellaneous parts and supplies are bought from local retailers.

. . . . .

We have organized our report into four major sections: "Good Value in Purchasing"; "Probity in Purchasing"; "Equitable Treatment of Suppliers"; and "Use of Local and Regional Suppliers." Where we think they would be helpful to the school district, we have included recommendations, even though the areas needing improvement are not significant enough to affect our overall conclusion on the district's purchasing performance.



Courtesy of Windermere (#4) School District

*Technology is an integral part of education today*



## Good Value in Purchasing

### Conclusion

In our opinion, the methods used by Windermere school district for organizing its purchasing activities, gauging the performance of purchasing activities, planning its requirements, and managing its purchase transactions are sufficient to give it good value in purchasing.

### Findings

#### *Good Value Through Organization*

Purchasing is more apt to be carried out with economy if responsibilities for specific areas of purchasing are clearly laid out, and if management ensures that purchasers have the training and skills to carry out their assigned responsibilities.

#### *Assignment of Responsibility*

Under school-based management, most purchase streams are the responsibility of school principals. The exceptions are clearly understood. Purchases for maintenance and cleaning are the responsibility of the operations supervisor. Where educational tools are centrally managed, as with texts and computers, their purchase is also centralized. Where joint buying is beneficial, as for paper supplies, district management coordinates a bulk purchase on behalf of the schools.

#### *Needed Knowledge and Skills*

The district is too small to use professional purchasing staff. Instead, it has regular staff members do the purchasing related to their specific responsibilities. Staff

assigned purchasing responsibilities do not receive formal training. They rely on district policies, their own experience and the experience of colleagues to guide them. In the transactions we examined, staff in most cases used appropriate purchase methods; two exceptions are discussed below under "Equitable Treatment of Suppliers."

#### *Gauging Performance in Achieving Good Value*

Good management of purchasing requires that performance goals be set, that performance be judged against those goals, and that results be reported to those ultimately responsible—in school districts, the board of trustees.

#### *Setting Performance Goals and Judging Performance*

Windermere school district does not have formal performance goals to be met by staff involved in purchasing, nor any formal method of judging their performance. However, because of the district's small size, the superintendent and secretary-treasurer directly oversee or review all district activities, including purchasing. They assign work to staff, informally convey performance expectations, and informally review performance. As well, the secretary-treasurer monitors transactions, including purchase transactions, through the central accounting and payment system; formally assigns staff the right to initiate expenditures, in keeping with board policy; and controls the issuance of purchase orders.

### Role of the Board of Trustees

The board of trustees, when necessary, deals with vendor complaints that have not been resolved by district officials. Otherwise, the board has chosen not to be actively involved in purchasing operations, but to set policy and let its senior managers manage. The secretary-treasurer, both directly and through the superintendent, is responsible to the board for financial and administrative matters, including purchasing.

In all districts we visited, boards had delegated the responsibility for management, including management of purchasing, to their senior officials. However, in none of them did we find a systematic method by which officials reported to their board on their stewardship over purchasing.

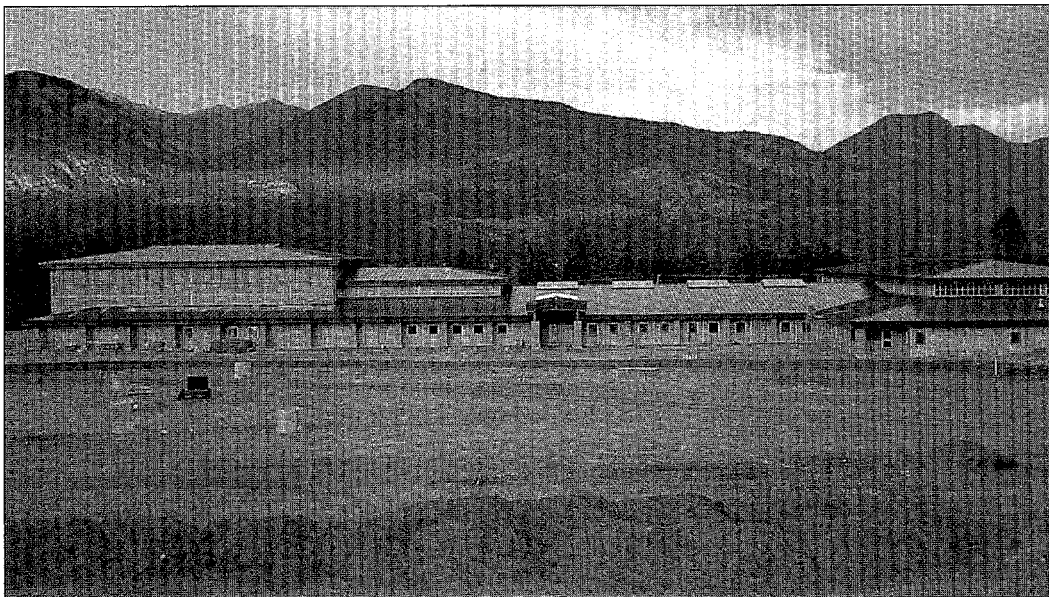
### *Good Value Through Requirements Planning*

Low-cost, occasional purchases may require nothing more than a phone call to a local retailer. More

significant purchases, however, require planning and investigation. For bulk purchases, staff need to collect information on past use and project the likely demand for at least the next year. For strategic purchases, staff need to think about the future implications of purchase decisions and to make sure those decisions fit with district plans. For purchases that are frequent or have maintenance or training implications, staff need to consider whether standardizing brands, models, or specifications would give best value for the district.

### Information on Past Use

We found that record-keeping for bulk orders in the district is simple but sufficient. For the paper order, the district reminds the schools of the amounts they ordered in the previous year and asks them if they want to change their order. For maintenance materials, the maintenance department tracks its own usage informally and projects any special needs.



Courtesy of Windermere (#4) School District

*The new David Thompson Secondary School*



## Planning

In the school districts we visited, three aspects of planning had important implications for purchasing: the integration of technologies such as microcomputers into the schools, the opening of new schools, and the management of texts, other learning resources, and library resources.

In Windermere district, planning and purchasing for computers are integrated. The district technology committee makes strategic choices and reflects these in a five-year implementation plan, which guides the choice of what is purchased each year.

At the time of our audit visit, Windermere district was building a new secondary school. However, the project was not at the stage where most equipment purchases were being made. The exceptions were furniture, discussed below under "Bulk Buying," and the media integration system, discussed below under "Competitive Tendering."

Planning and purchasing are also integrated for textbooks and other learning resources. A district committee sets priorities among subjects and grades, allocates the available funds accordingly, and decides what specific resources will be bought. The detailed plan is translated directly into purchase orders. Each school manages its own inventory of textbooks and other learning resources, but schools informally exchange information about the resources they have available. Similarly, schools track their own library resources, but informally share the information with each other. As well, there is an electronic catalog of library materials

held in the district resource center, and schools have copies of this catalog.

## Standardization

The district standardizes its equipment purchases when it believes that doing so has advantages for maintenance, integration, or training. For example, the technology committee chose a single computer platform so that it could simplify maintenance, training, and software purchases. Likewise, the maintenance department is standardizing its model of school bus to minimize repair and maintenance costs at its bus repair shop.

Unlike several other districts we visited, Windermere district has concluded that there is no longer any advantage to standardizing photocopiers, although it did so in the past. Instead, each school is free to find the brand and model that suits its needs and budget. Principals informally share information on costs, performance, and maintenance, and often make their choice only after in-school trials of contending machines. This approach—allowing each school to choose its own tradeoff of cost and performance—seems to work well, and schools are happy with the results.

## *Good Value Through Managing the Purchase Transaction*

Choosing what to buy is not the final step in purchasing economically. How the purchase transaction is carried out also affects the total cost. For example, a district may be able to make savings by using competitive tendering or by making purchases in cooperation

with other districts. The measure of a district's success in this area is whether it can choose methods of supply that minimize the cost of goods acquired, including the cost of acquiring them.

### Competitive Tendering

District policy requires that purchases over \$5,000 be publicly tendered, unless the secretary-

treasurer determines there are justifiable reasons for not doing so. On purchases for which significant savings are possible, we found that the district makes appropriate use of competitive tendering. For example, for its bulk paper order, it sends invitations to quote to all the suppliers it can find that are likely to be competitive.

The new secondary school being built is designed to incorporate a school-wide media integration system. This technology is relatively new. The district, recognizing that its choice here could set a precedent for itself and other districts, is, in our opinion, being appropriately cautious in settling on a method of choosing among contending suppliers.

For most major purchases we examined, district files contained appropriate documentation of the purchasing decisions made.

### Precise Contract Terms

The bid documents we examined were not extensive and did not address all the important points that make up a purchase contract. Having a set of standard contract clauses would, we believe, benefit the district in several ways. A set of clauses covering the most likely contracting situations would guide staff in carrying out purchases and remind them to address all the areas that have to be covered in a contract. Drawing from a set of standard clauses would allow all district staff arranging purchase contracts to do so with the same level of skill and completeness. Finally, having a set of standard clauses would likely reduce the time required to draft bid documents.



Courtesy of Windermere (#4) School District

*Industrial education calls for specialized materials and equipment (David Thompson Secondary School)*



We are not suggesting that purchasing become rigid and bureaucratic, just that an organized approach to developing purchase contracts be adopted. We found similar contract weaknesses in most of the districts we visited, and believe that districts could save money by jointly developing standard contract language.

*Recommendation 1: Windermere school district, perhaps working in concert with other districts, should develop a set of standard clauses to include in its purchasing documents.*

### **Bulk Buying**

The district purchases in bulk textbooks and other learning resources, standard supplies that are centrally controlled (such as custodial supplies), and commodities used in quantity throughout the district (such as photocopy paper). Recently, it also bulk-ordered the furniture for the new secondary school under construction.

Care is taken to minimize the total cost, including handling, of these purchases. For example, the bulk paper tender specifies that the paper will be delivered to one central location, but packaged separately for each school. This obtains the price advantage of a bulk order and a single delivery charge, but minimizes the district's costs in getting the paper to its schools.

### **Ad Hoc Purchases**

The district buys some materials both in quantities and at times that would not justify bulk buying. For example, repair parts for a heating system would usually be bought as needed. Although each purchase may not be large, the total

business with a single supplier can be significant. We noted that the district did not receive discounts from one supplier with whom it did a substantial volume of business, and suggest it try to negotiate appropriate discounts with that supplier.

### **Cooperative Purchasing**

Windermere district, like most others we visited, finds few perceived advantages in making joint purchases with other school districts or local agencies. The time and effort to coordinate such purchases, and the need to change district standards sometimes to make joint buying possible, are seen by district staff as making cooperative purchasing more trouble than it is worth.

On the other hand, transactions that individually have only a small payoff for each district may, taken together, significantly benefit the province as a whole. For example, we were told that buying textbooks in bulk can result in savings of up to 20%. Districts may be able to achieve these savings by combining their orders with their neighbors' to gain sufficient volume. We believe that in many cases the extra cost of, say, having to coordinate deliveries in a number of districts would be more than offset by the public benefit.

*Recommendation 2: Senior management of the district, with their counterparts in other districts or other public bodies, should examine the benefits of cooperative purchasing and, where possible, reduce obstacles preventing its use.*





## Probity in Purchasing

When purchasing is carried out with public funds, there is an expectation that it will be done with probity—that is, honesty in fact and in appearance. Policies and procedures should therefore be designed with this goal in mind, and management should convey to employees that ethical values cannot be compromised.

### Conclusion

Although probity is not formally addressed in the district's policies, it is encouraged by the district's general management controls and by the attitudes of its employees.

### Findings

Essentially, probity is an attitude rather than a policy or procedure. The corporate culture generally, and the example set by management specifically, are key to whether business is carried out honestly and with sound stewardship. In Windermere school district, as in the others we visited, we felt that the management and staff we interviewed shared a common attitude, namely, that the focus of their job was service to the district.

The district does not have formal policies on conflict of interest or other probity issues. We think that such guidance is particularly important to have when purchasing is delegated to staff who are not purchasing specialists. Confidence in public purchasing rests partly on appearance, and clear policies are a signal that probity is taken seriously. Staff need to know what the district's expectations are so that they do not

inadvertently find themselves damaging the public's perception of the district. An issue such as conflict of interest, for example, can have a wide range of definitions. Are employees in conflict if they sell goods to the district? Does it matter whether they can influence the buying decision? What about sales by their friends or family? Clear policies on this and other such issues would aid both the reality and the appearance of probity.

*Recommendation 3: The district should document its policies related to probity so that staff and the public fully understand the district's expectations.*

Policies designed to encourage good value also encourage probity. For example, district policy requires competitive tendering for most major purchases. Competitive tendering puts purchase transactions under a spotlight, exposed to the scrutiny of district staff and interested suppliers.

The secretary-treasurer checks all aspects of a purchase prior to payment. The district also has formal management controls over the events surrounding the purchase decision, such as controls to ensure that those who initiate or approve transactions are authorized to do so, that purchase transactions are charged to the appropriate accounts, and that accounts have sufficient funds to cover the purchase. Although these management controls were outside the scope of our audit, nothing we found during our audit gave us cause for concern about them.







## Equitable Treatment of Suppliers

Purchasers in the public sector are expected not to show any supplier favoritism. Who gets an opportunity to bid, how products are specified, how bids are responded to, and how the winning bid is chosen all affect how equitably suppliers are treated.

### Conclusion

The district's purchasing methods are generally sufficient to ensure that suppliers are treated equitably.

### Findings

District policy addresses equity in several ways:

- It emphasizes that purchasers should give paramount consideration to obtaining best value for the taxpayers' dollar.
- It calls for competitive means to be used for major purchases.
- It calls for major purchases to be advertised.
- It calls for local merchants to be given every opportunity to compete for purchases.

Although not addressed in policy, the district has in practice, we

found, a reasonable approach to using specifications in such a way that they do not affect equity. For example, the custodial supplies tender specifies brand names for many materials, but the purchaser will accept alternatives that prove, on sample testing, to be equivalent in performance.

What the district lacks, however, are clear procedures for offering or responding to bids. When examining a selection of district purchases, we found two in which the procedures used may have resulted in inequity. In one, the purchaser gave a bidder a chance to meet the terms offered by another bidder, but did not offer this chance to all bidders. In the other, a purchase was directed to one supplier rather than being tendered.

*Recommendation 4: The district should clearly define the procedures it wants used for selecting bidders and responding to bids, and should ensure that staff understand the rationale for these procedures.*





## Use of Local and Regional Suppliers

Governments sometimes use their purchasing power to achieve economic or social goals such as encouraging local industries. Although such choices are more common at the provincial or national level, we looked to see whether this school district had such policies and, if so, how well it carried them out.

### Conclusion

Policy and practice in the district encourage the use of local and regional suppliers whenever they are competitive with outsiders on price and quality.

### Findings

District policy calls for local merchants to be given every opportunity to compete for district purchase contracts, providing always that "paramount consideration shall be given to obtaining the best value for the taxpayers' dollar." In practice, because of its location and size, Windermere school district does much of its purchasing locally. Nevertheless, we found that district staff were careful to ensure that, before making significant purchases, both local and more distant suppliers were considered.





## District Response

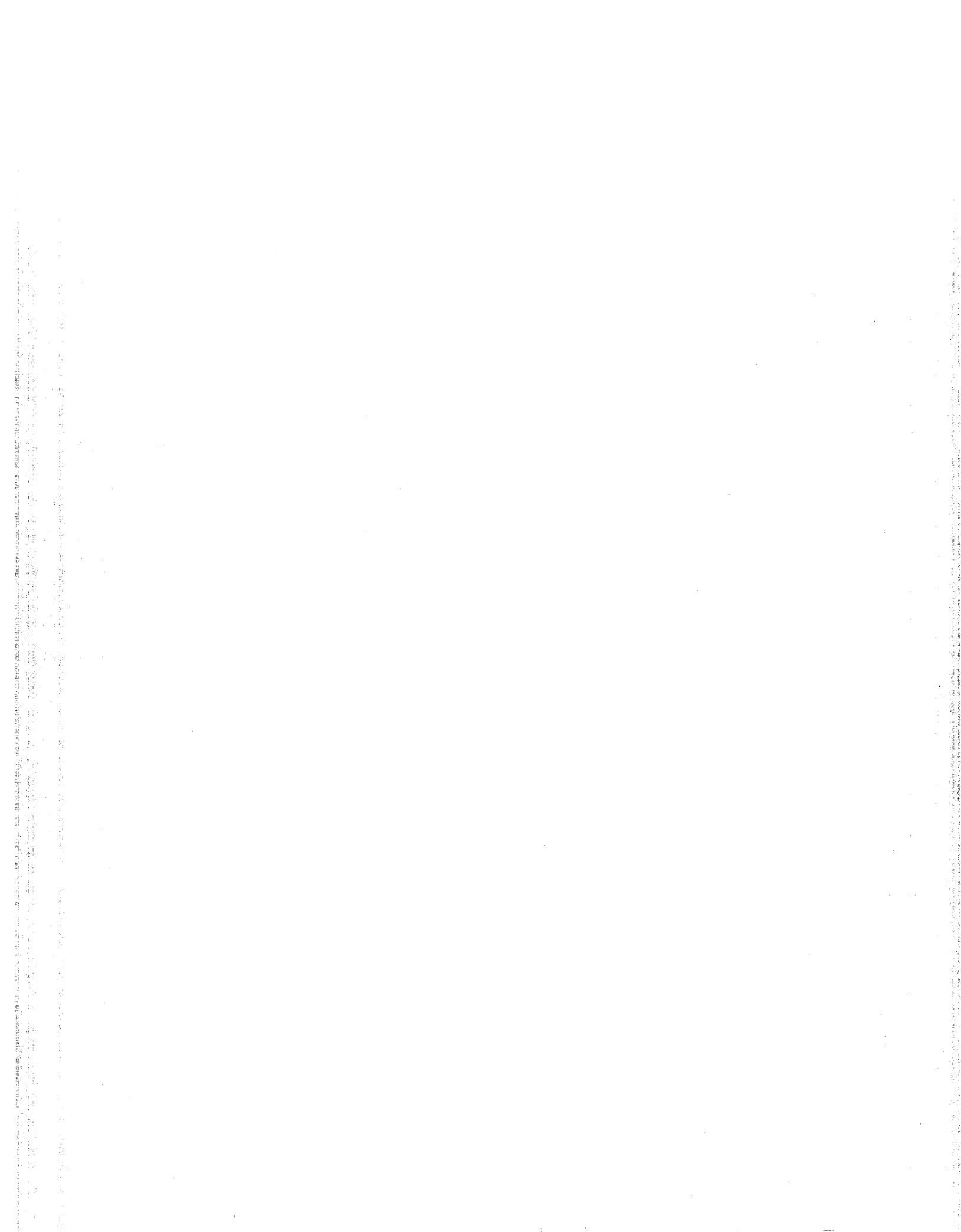
*We are in receipt of the report "Audit of District Purchasing Practices" for Windermere School District. We have been pleased with the process undertaken by the Auditor General's department, in particular the opportunity to clarify and seek advice pertaining to recommendations made by the Auditor General.*

*It has been useful for us to reconsider some of our practices pertaining to purchasing as the organizational structure of the school district has evolved. Specifically, the implementation of school-based management has shifted the roles and responsibilities of some individuals and it is important for us to clarify the new expectations for these individuals.*

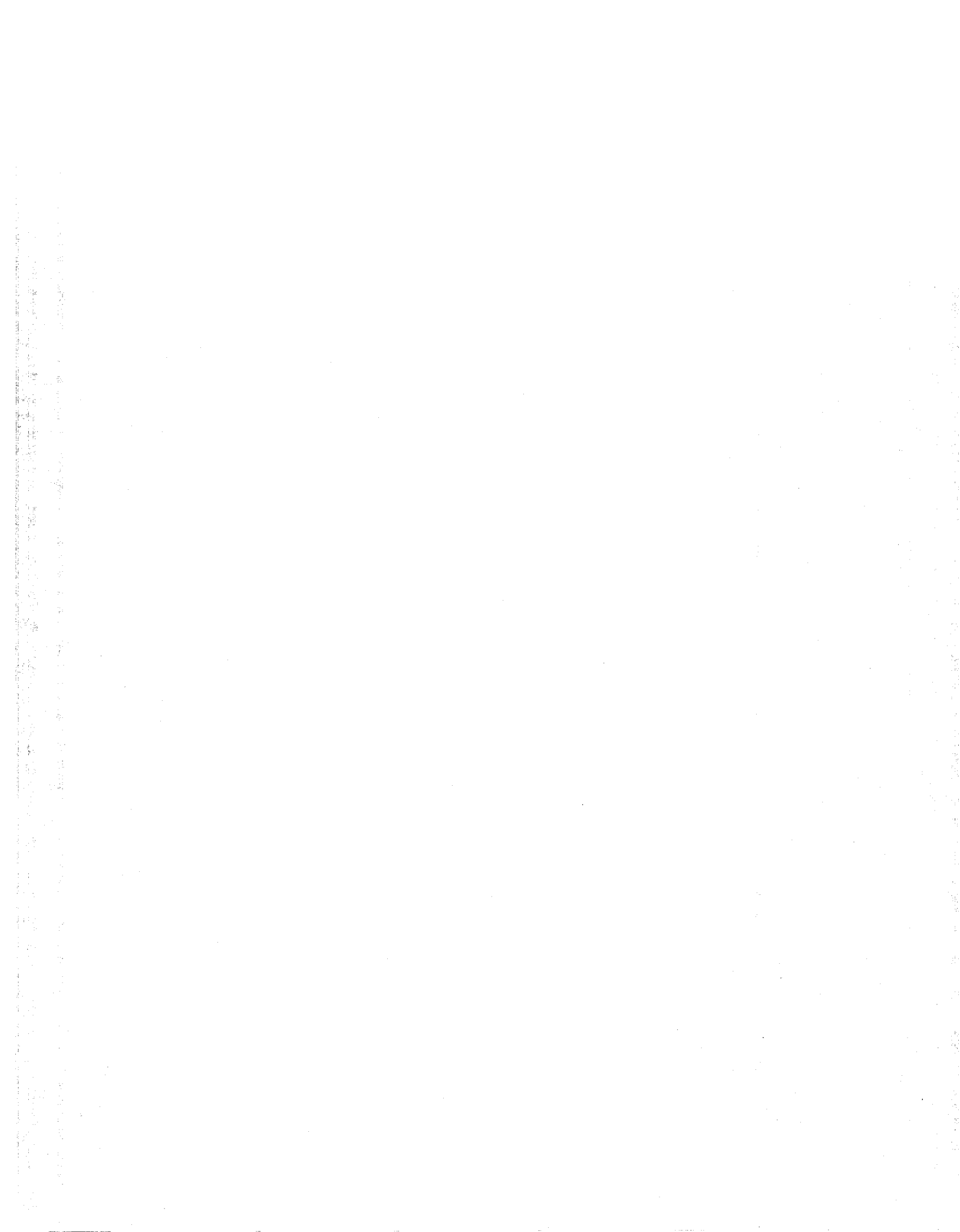
*The Auditor General has made four recommendations concerning purchasing practices in Windermere School District. The school district has already begun to address three of the recommendations concerning standard clauses in purchasing documents, and policies pertaining to probity and selecting and responding to bids. As well, the school district will investigate the benefits of cooperative purchasing with other public bodies.*

*Windermere School District is better for having undergone this review of its purchasing practices.*





# *Appendix*





## Appendix

### Office of the Auditor General: Audit Objectives and Methodology

Audit work performed by the Office of the Auditor General falls into three broad categories:

- Financial statement auditing;
- Value-for-money auditing; and
- Compliance-with-authorities auditing.

Each of these categories has certain objectives that are expected to be achieved, and each employs a particular methodology to reach those objectives. The following is a brief outline of the objectives and methodology applied by the Office for value-for-money auditing.

#### Value-for-Money Auditing

##### *Purpose of Value-for-Money Audits*

Value-for-money audits look at how organizations have given attention to value for money—to economy, efficiency and effectiveness.

The concept of value-for-money auditing is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

##### *The Nature of Value-for-Money Audits*

A value-for-money audit has been defined as:

*... the independent, objective assessment of the fairness of management's representations on performance, or the assessment of management systems and practices, against criteria, reported to a governing body or others with similar responsibilities.*

This definition recognizes that there are two primary forms of reporting used in value-for-money auditing. The first—referred to as attestation reporting—is the provision of audit opinions on reports that contain representations by management on matters of economy, efficiency and effectiveness.

The second—referred to as direct reporting—is the provision of more than just auditor's opinions. In the absence of representations by management on matters of economy, efficiency and effectiveness, auditors, to fulfill their mandates, gather essential information with respect to management's regard for value for money and include it in their own reports along with their opinions. In effect, the audit report becomes a partial substitute for information that might otherwise be provided by management on how they have discharged their essential value-for-money responsibilities.

The attestation reporting approach to value-for-money auditing has not been used yet in British Columbia because the organizations we audit have not been providing comprehensive management representations on their value-for-money performance. Indeed, until recently, the



management representations approach to value for money was not practicable. The need to account for the prudent use of taxpayers' money had not been recognized as a significant issue and, consequently, there was neither legislation nor established tradition that required public sector managers to report on a systematic basis as to whether they had spent taxpayers' money wisely. In addition, there was no generally accepted way of reporting on the value-for-money aspects of performance.

Recently, however, considerable effort has been devoted to developing acceptable frameworks to underlie management reports on value-for-money performance, and public sector organizations have begun to explore ways of reporting on value-for-money performance through management representations. We believe that management representations and attestation reporting are the preferred way of meeting accountability responsibilities and are actively encouraging the use of this model in the British Columbia public sector.

Presently, though, all of our value-for-money audits are conducted using the direct reporting model; therefore, the description that follows explains that model.

Our value-for-money audits are not designed to question government policies. Nor do they assess program effectiveness. *The Auditor General Act* directs the Auditor General to assess whether the programs implemented to achieve government policies are being administered economically and efficiently. Our value-for-money audits also evaluate whether

members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

When undertaking value-for-money audits, auditors can look either at results, to determine whether value for money is actually achieved, or at managements' processes, to determine whether those processes should ensure that value is received for money spent.

Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds value for money has not been achieved, the natural questions are "Why did this happen?" and "How can we prevent it from happening in future?" These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at the process and finds weaknesses, the question that arises is "Do these weaknesses result in less than best value being achieved?" This can only be answered by looking at results.

We try, therefore, to combine both approaches wherever we can. However, as acceptable results information and criteria are often not available, our value-for-money audit work frequently concentrates on managements' processes for achieving value for money.

We seek to provide fair, independent assessments of the quality of government administration. We conduct our audits in a way that enables us to provide positive assessments where they are warranted. Where we





cannot provide such assessments, we report the reasons for our reservations. Throughout our audits, we look for opportunities to improve government administration.

### *Audit Selection*

We select for audit either programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. There are a large number of such programs and functions throughout government. We examine the larger and more significant ones on a cyclical basis.

We believe that value-for-money audits conducted using the direct reporting approach should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. Because of limited resources, we have not been able to achieve this schedule.

### *Our Audit Process*

We carry out these audits in accordance with the value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

One of these standards requires that the “person or persons carrying

out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit.” In order to meet this standard, we employ professionals with training and experience in a variety of fields. These professionals are engaged full-time in the conduct of value-for-money audits. In addition, we often supplement the knowledge and competence of our own staff by engaging one or more consultants, who have expertise in the subject of that particular audit, to be part of the audit team.

As value-for-money audits, like all audits, involve a comparison of actual performance against a standard of performance, the CICA prescribes standards as to the setting of appropriate performance standards or audit criteria. In establishing the criteria, we do not demand theoretical perfection from public sector managers. Rather, we seek to reflect what we believe to be the reasonable expectations of legislators and the public. The CICA standards also cover the nature and extent of evidence that should be obtained to support the content of the auditor’s report, and, as well, address the reporting of the results of the audit.



