

Internal Controls for Purchasing

Internal controls for purchasing are essential to ensuring that school districts acquire goods and services in a transparent, cost-effective, and compliant manner. Strong purchasing controls help prevent fraud, waste, and unauthorized expenditures. Below are key internal controls specific to purchasing that school districts should implement:

Segregation of Duties

- **Objective:** To prevent a single individual from having complete control over the purchasing process.
- **Implementation:**
 - One individual should initiate the purchase request (e.g., department head or teacher).
 - A different individual should approve the purchase (e.g., principal or finance officer).
 - A separate person should receive and verify the goods or services before payment is processed.
- **Example:** A teacher submits a request for classroom supplies, the principal approves it, and a staff member in the business office verifies receipt before payment.

Purchase Order (PO) System

- **Objective:** To ensure all purchases are pre-approved and documented.
- **Implementation:**
 - All purchases should require an approved PO before an order is placed.
 - POs should be matched with invoices and receiving reports before payment is made.
- **Example:** The school district requires teachers to submit a PO request for classroom materials, which must be approved before ordering from a vendor.

Competitive Bidding Process

- **Objective:** To ensure purchases are made at the best value and to prevent favoritism or overpricing.
- **Implementation:**
 - Purchases above a certain threshold should require multiple quotes or a formal bidding process.
 - A documented selection process should be maintained for review.
- **Example:** For a new technology purchase over \$10,000, the district solicits at least three bids and selects the most cost-effective option.

Approved Vendor List

- **Objective:** To prevent unauthorized transactions and ensure purchases are made from reliable vendors.
- **Implementation:**
 - The district should maintain a list of approved vendors who meet qualification standards.
 - Periodic reviews should be conducted to remove inactive or non-compliant vendors.
- **Example:** All purchases must be made through vendors pre-approved by the district to ensure quality and compliance.

Budgetary Controls

- **Objective:** To prevent overspending and ensure purchases align with financial plans.
- **Implementation:**
 - Purchases should be reviewed against the budget before approval.
 - Monthly budget reports should be generated to track expenditures.
- **Example:** A department requests additional supplies, but the finance office denies the request because the budget for that category has been exhausted.

Invoice and Payment Verification

- **Objective:** To ensure only legitimate and accurate invoices are paid.
- **Implementation:**
 - All invoices should be matched to the corresponding PO and receiving report before payment.
 - Discrepancies should be investigated before issuing payment.
- **Example:** Before paying a vendor, the finance office verifies that the invoice amount matches the approved PO and the items received.

Prohibition of Split Purchases

- **Objective:** To prevent avoiding purchasing thresholds and approval requirements.
- **Implementation:**
 - Large purchases should not be artificially split into smaller transactions to bypass approval processes.
 - Purchases should be reviewed periodically for compliance with spending limits.
- **Example:** A school needs \$6,000 worth of lab equipment, and the finance office prevents the request from being split into two \$3,000 orders to avoid the bidding process.

Employee Training and Compliance

- **Objective:** To ensure staff understand and follow purchasing policies and procedures.
- **Implementation:**
 - Employees involved in purchasing should receive regular training on procurement policies.

- Clear guidelines should be communicated to all staff on proper purchasing procedures.
- **Example:** The district holds an annual training session for teachers and administrators on purchasing policies and vendor selection requirements.

Regular Audits and Reviews

- **Objective:** To ensure compliance with purchasing policies and identify areas for improvement.
- **Implementation:**
 - Internal or external audits should be conducted periodically to review purchasing transactions.
 - Findings should be documented, and corrective actions should be implemented where necessary.
- **Example:** The district's internal auditor reviews purchase orders, invoices, and approvals for the previous year to ensure compliance with financial policies.

Approval for Emergency or Non-Routine Purchases

- **Objective:** To ensure unplanned expenditures are justified and authorized appropriately.
- **Implementation:**
 - Emergency purchases should require documentation explaining the urgency and approval from a higher authority.
 - A separate fund or budget line should be maintained for emergency purchases.
- **Example:** A school's heating system fails, requiring an emergency repair. The superintendent approves the expenditure and documents the emergency nature of the purchase.

Example Scenario of Purchasing Internal Controls:

- **Scenario:** A school district needs to purchase new textbooks for the upcoming school year.
- **Control Steps:**
 - The curriculum coordinator submits a purchase request for the books.
 - The finance office verifies that the purchase aligns with the district's budget.
 - The procurement officer solicits bids from three vendors and selects the most cost-effective option.
 - The finance office generates a PO and issues the order.
 - Upon delivery, staff verify the textbooks match the order before payment is processed.
 - The business manager conducts a review of the purchase to ensure compliance.

By implementing these internal controls, school districts can ensure that purchasing activities are transparent, cost-effective, and compliant with financial policies and regulations.