



Fraud Alert— Purchasing Cooperatives

The Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee. Our mission is to improve state and local government operations and accountability by independently providing the Legislature, government decision-makers, and the public with timely, accurate, and impartial information; relevant recommendations; and technical assistance. This fraud alert addresses purchases made through a purchasing cooperative and recommends due diligence procedures to help ensure that cooperatives are adhering to laws and regulations, providing equitable pricing, and passing along vendor discounts.

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Due Diligence Is Imperative

Overpayments, higher prices, and substituted products—All governmental entities and charter schools in Arizona that are not exempted under statute or charter agreement are responsible for ensuring that purchasing, whether independently or through a cooperative purchasing agreement, is done in accordance with state statutes, the Arizona Administrative Code, and the entities' own competitive purchasing policies. We have noted serious problems with purchasing cooperatives, including one that:

- Oversaw vendors that substituted unauthorized products and

overcharged nine Arizona school districts more than \$175,000

- Allowed some school districts to pay prices as much as 33 percent higher than other entities' for the same products
- Received up to \$60,000 per year in vendor discounts, which it kept and failed to pass along to the school districts

When purchasing through a cooperative agreement, adequate due diligence is critical to ensure the cooperative is complying with applicable laws and regulations, and conducts business in an ethical manner.

How Can You Protect Your Entity?

You can implement some due diligence policies and procedures to help ensure that purchasing cooperatives are adhering to laws and regulations, providing equitable pricing, and passing along discounts. Specifically:

- Inquire with the cooperative to determine if an independent review of its purchasing practices has been performed. Examine any noted findings and evaluate whether the cooperative is adequately following applicable laws and regulations. If a review has not been performed, conduct your own procurement review of the cooperative's purchasing practices.
- Examine the cooperative's negotiated vendor contracts and evaluate whether the contracts comply with laws and regulations. Be alert for instances when a cooperative uses requests for proposals to contract for goods and services where price is the determining factor for the award. An invitation for bids should be used when price

determines the winning bidder. Many cooperatives make contracts and other procurement documentation available on their Web site.

- Ensure that the goods and services you are purchasing are on the vendor's contract and examine the contract for potential discounts. Contact the vendor directly and inquire about timely payment and bulk purchasing discounts, and ensure these discounts are included in your billing.
- Examine the excluded parties' lists maintained by the Arizona State Procurement Office and the U.S. General Services Administration, which contain the names of individuals and firms prohibited from conducting business with the state and federal governments. For more information, visit http://spo.az.gov/Admin_Policy/SPM/Suspended_and_Debarred/default.asp and www.epls.gov.
- Retain documentation of the procedures performed in your procurement files for audit purposes.