



5 Critical Missed Steps in the Nonprofit Procurement Process

By Roberta Katz, MBA

Does your nonprofit organization use outside vendors to purchase goods and to perform services such as facilities cleaning, repairs and maintenance or food delivery for your program participants? Perhaps you have been using the same vendor for an extended period of time because they are familiar with your operations or can accommodate specific needs that are unique to your organization. Perhaps the payments you are making to these vendors have been escalating over the years but due to your ongoing relationship with them you have not questioned the increased cost or reviewed your contractual agreements with them.

Using the same vendor for many years without implementing and enforcing a formal bidding process designed to obtain quality services, ensure cost savings and prevent favoritism, can result in fraudulent activity such as kickbacks paid to a procurement manager in order for the vendor to retain your account. Payment for goods and services without properly executed, monitored and enforced contracts and without internal controls over the invoice submission and payment process can result in payment for services not performed or disbursements in excess of negotiated contract prices.

Nonprofits often miss five critical steps in the procurement process that can expose their organizations to an increased risk of fraudulent activity. The following steps should be incorporated into the process, whether through a manual or automated procurement system, and strictly administered and enforced.

Missed Step #1- No Formal Vendor Review and Bidding Process

Corrective Actions:

- Establish a formal bidding policy that includes a schedule for contract bidding and a monetary threshold above which contracts should be subject to the bidding process.
- Formalize the criteria for vendors to be included in the bidding process and the criteria for final selection of a vendor.
- Select an independent review panel to oversee and evaluate the proposals received and to perform comprehensive vetting of the candidates.

Missed Step #2- No Formal Database and Review of Executed Vendor Contracts

Corrective Actions:

- Maintain a database of executed contracts that is updated and reviewed regularly to ensure they are current and properly executed.
- Ensure that all of your organization's locations, including remote sites, have contracts for goods and services.
- *Checks & Balances:* The individual authorized to sign the contract should not be the same individual who authorizes payment of vendor invoices.

Missed Step #3- No Proper Authorization for Services Performed and Goods Received

Corrective Actions:

- A work order for project based services should be submitted by program staff and approved by a procurement supervisor prior to the work being performed.
- Once the project is completed, the staff overseeing the job should sign off on the work order indicating that the work has been completed.
- When purchased goods are received, a proof of delivery document should be signed and dated by the staff who received the delivery.

Missed Step #4- No Proper Review and Approval of Vendor Invoices

Corrective Actions:

- The information on the vendor invoice submitted for payment should be reviewed and compared to the executed contract for accuracy.
- Invoices should not be paid without an accompanying signed proof of delivery or completed work order for project based work (see Missed Step #3).
- *Checks & Balances:* The individual who authorizes payment of invoices should not be the same individual who signs off on the completion of services or receipt of goods.

Missed Step #5- No Documented and Approved Procurement Policies and Procedures

Corrective Actions:

- Procurement policies and procedures should be documented and included in a comprehensive Accounting Policies and Procedures Manual which is approved by the Board of Directors.
- The procurement policies and procedures should establish effective internal controls and best practices to ensure accurate and reliable financial reporting, ongoing operations and transparency in financial management.
- The Manual should be maintained by senior management and updated and approved on an annual basis.

The procurement process is a vital part of all nonprofits' operations. The selection of vendors, the negotiation and execution of contracts and the actual purchase of goods and services are essential parts of this process. Each step requires efficient and effective internal controls, policies and procedures in order to safeguard the organization's assets and prevent or mitigate the risk of fraudulent activity.

Roberta Katz, MBA has worked in senior financial management positions at several major nonprofit organizations. She has successfully overhauled their Finance Departments and implemented key processes such as those outlined in this article. Roberta is available for part-time and full- time consulting assignments. She can be contacted at robertapkatz@gmail.com.