

MSBO

Purchasing Advanced

Ethics, Dilemmas and Decision-making

A practical discussion of issues in the
purchasing process

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Purchasing Advanced Ethics, Dilemmas and Decision-making

- Topics for Discussion
 - Understanding Ethics
 - Relating Ethics to the purchasing function
 - Identifying points of decision-making
 - District policies and purchasing impact
 - Pragmaticism vs rules
 - Discussing dilemmas
 - How do you know you are successful?
 - Key Take Aways

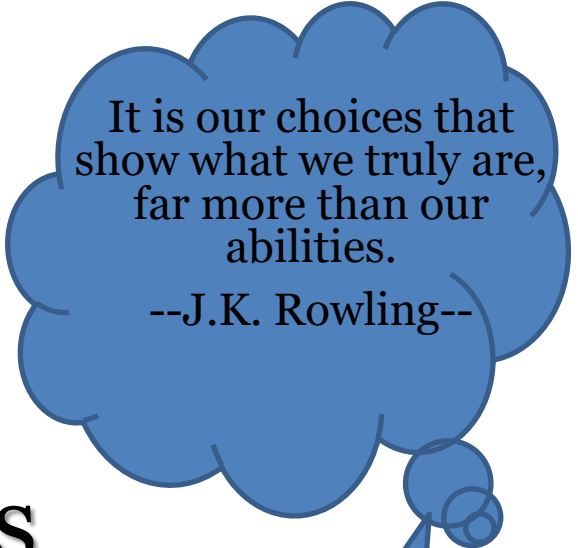
Understanding Ethics





Relativity applies to physics,
not ethics

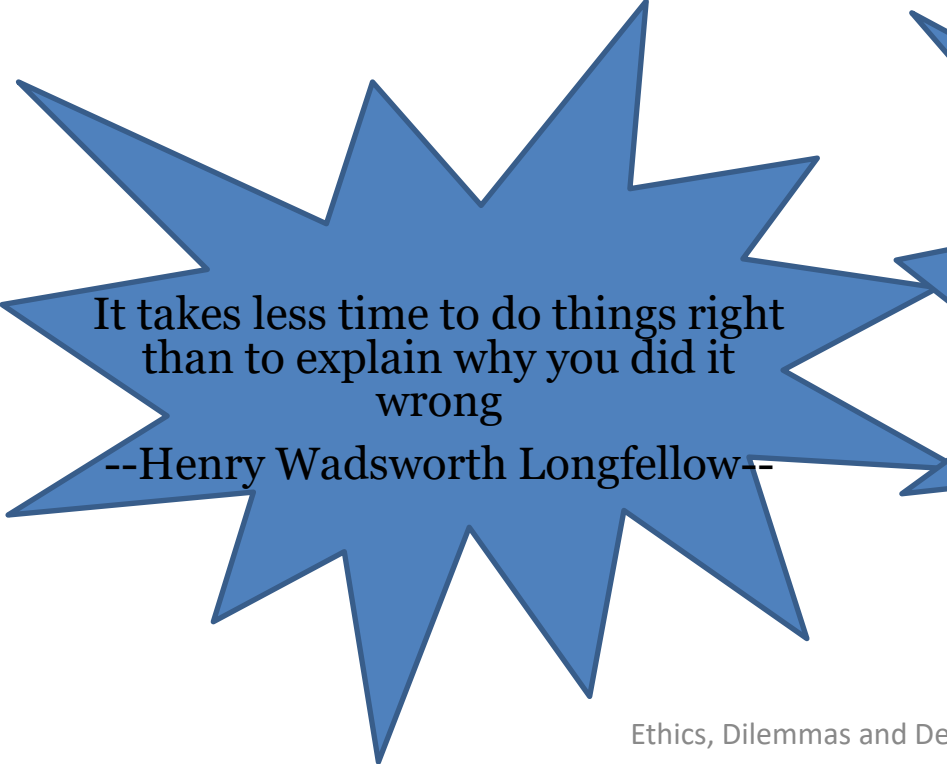
--Albert Einstein--



It is our choices that
show what we truly are,
far more than our
abilities.

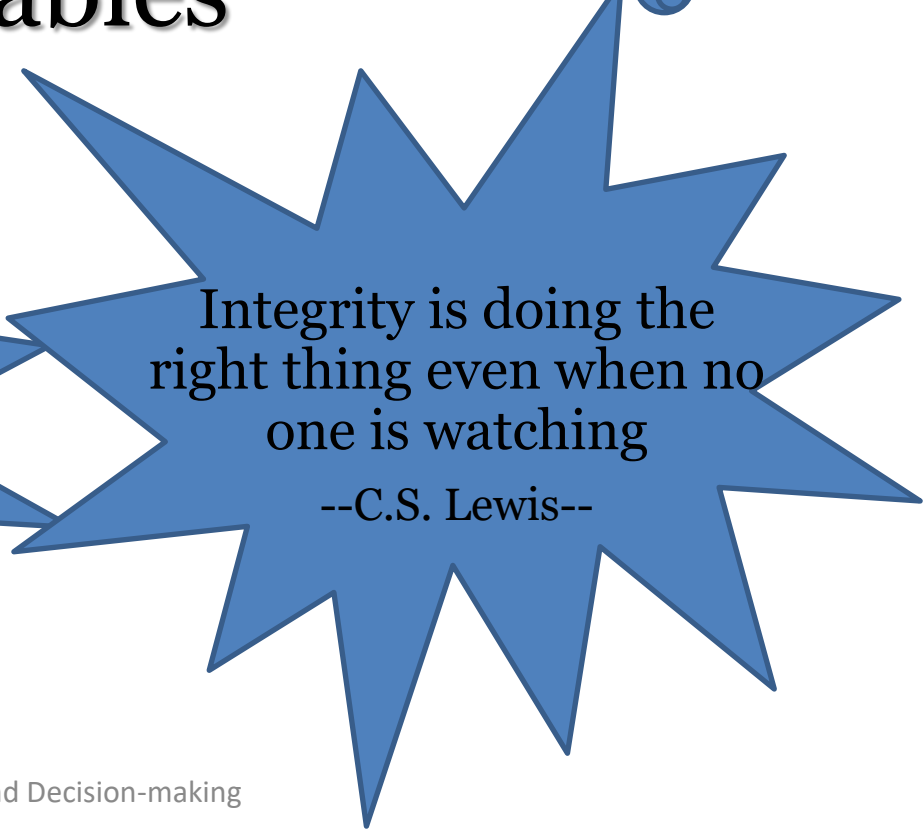
--J.K. Rowling--

Quotables



It takes less time to do things right
than to explain why you did it
wrong

--Henry Wadsworth Longfellow--



Integrity is doing the
right thing even when no
one is watching

--C.S. Lewis--

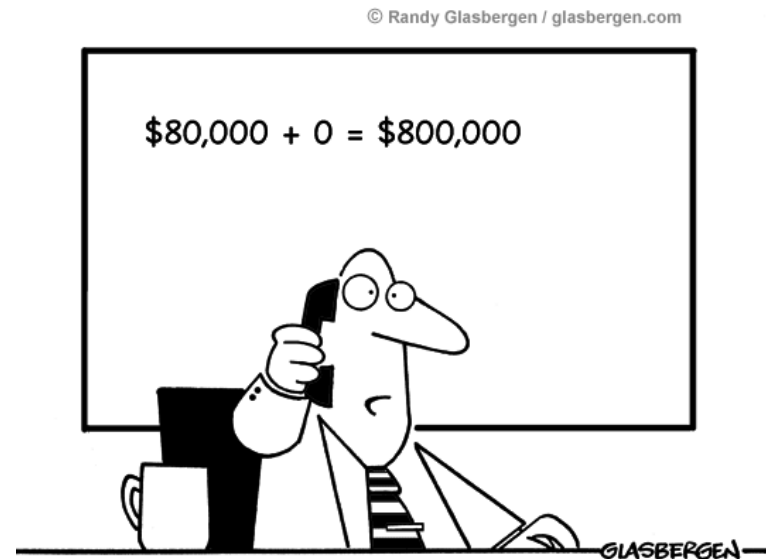
Basics of ethics

- Definition:
 - Ethics refers to principles that define behavior as right, good and proper.
 - Ethics refers to well based standards of right and wrong that prescribe what humans ought to do.
 - Ethics are continuous efforts of striving to ensure that we, and the institutions we represent, live up to the standards that are reasonably and solidly based.
- Ethics does NOT equal fraudulent behavior per se
- Ethics are right and wrong behaviors
- Government officials are especially scrutinized given the public venues in which you operate

ethical values

- **Six Ethical Values Relevant to Public Service**

- Trustworthiness
- Responsibility
- Respect
- Compassion
- Fairness
- Citizenship



**"That's right, I've decided to give myself
zero pay raise this year."**

Ethical vs. unethical

- Some common items deemed unethical include:
 - Fraud
 - Improper use of government property
 - Bribery
 - Influence Peddling
 - Conflicts of Interest
 - Self-Dealing
 - Divulging confidential information
 - Improper conduct post-employment (I'll help you now if you help me later.....)
- Whether something is ethical in a government setting is usually “determined” by the public
- Perception is reality - Conflict of Interest exists when a person perceives there to be a conflict

Concept 1

- Unethical behavior can generally be viewed as falling into two categories:
 - Ethical Dilemma: Sometimes a person has to choose between two “right” choices that contradict each other; and they make the choice that we (or the majority of society) feels is inappropriate.
 - *(An example might be not blowing the whistle when we see something wrong happening in the workplace – generally depends on how big the wrong is.);*
 - Intentional Wrongdoing/ Fraud: Sometimes it is plain and simply bad behavior (e.g., theft of employer resources).

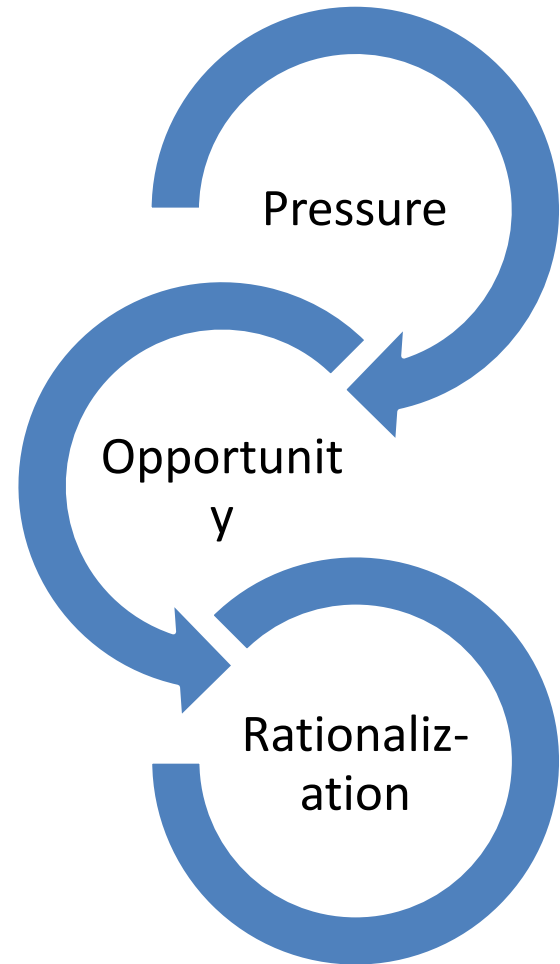
Concept 2

- Research has shown that bad behavior is “situational”
 - it depends on the situation. Research provides strong evidence that any person (any person) can engage in bad behavior – if the situation is right.
 - Observation: Oftentimes bad behavior results from a slow drift, not a fast current. This ends in a question:

Gee, how did I get here?

Concept 3

- The Fraud Triangle:
 - Pressure,
 - Opportunity &
 - Rationalization



Using the Fraud Triangle

- Relieve Pressure
 - Fairly little an organization can do, except to be aware
- Minimize Opportunity
 - This is where internal controls come in
- Target Rationalization
 - Zero tolerance policies can help here; so can allowing consequences to be public.

Risk Measure

- What would the paper say about it?
- What would your mother say about it?

Ex-principal's bond cut

school chief charged

HE FACES COUNTS OF FABRICATING RECEIPTS, EMBEZZLING LESS THAN \$20,000

Ex-PTO treasurer admits embezzlement

Former principal negotiates plea deal

Alleged embezzler waives hearing

Attorney defends school's actions

Superintendent arraigned on embezzlement charges

Embezzlement case stalls for lack of lawyer

School principal's arraignment put off two weeks

School chief departure 'best for both sides'

AGREEMENT COMES AFTER RESIDENTS CALL FOR HIS REMOVAL

Officials hope trial heals wounds of East Detroit bribery case

boosters await repayment from embezzler

Principal took donations, lost them in scam, cops say

Former President of District Board of Education and a Local Contractor Charged in \$560,000 Bribery Scheme

Former Michigan School Official Sentenced to Serve 46 Months in Jail for Role in Fraud Scheme

Which direction does your compass point?



The “Tone At The Top” will drive behavior throughout the organization

Relating Ethics to the Purchasing Function

- What is the purchasing functions responsibility?
 - Observations:
 - On average the “nonpeople” side of the GF budget is about 15% of the total budget.
 - Substantially all of the bond/sinking fund activity is handled via purchasing
 - Food service includes substantial purchasing activity either via internal operations or via food service management company
 - Purchasing includes large contracts, recurring contracts, one-time purchases, medium/small purchases and insignificant items (P-cards)
 - **Break Out Session Discussion**
 - Time allowed - 7 minutes
 - Goal - List at least 5 responsibilities
 - Prioritize - Pick top 3
 - Select spokesman
 - Conclusions?
 - Report out to the larger group

Relating Ethics to the Purchasing Function

- What roadmap is followed?
 - State and federal requirements
 - Purchasing policies
 - Administrative procedures
 - See “legal” section for above
 - Processing steps to do the right thing
 - Controls to help make sure we did the right thing
- Everything done in purchasing should link to a purpose
 - That reason should **not** be: “We have always done it that way!”

Relating Ethics to the Purchasing Function

- What is put in place to stay on the road?
 - Processes – Steps to begin handle and complete an activity in accordance with district policy and procedures
 - Some processes could apply to any purchase, some may be specific to the type of purchase made
 - Procedures should be clear, and indicate who, what, where, when, how
 - Key q – could someone familiar with purchasing step in and handle the item successfully?
 - Controls – Checks to either prevent or detect and correct errors or fraud

Relating Ethics to the Purchasing Function

- What is put in place to stay on the road?
 - Controls – Checks to either prevent or detect and correct errors or fraud
 - Concept – checks and balances
 - Not processes – technically works outside the process
 - Can be manual or vis use of technology
 - » What is built into the purchasing and payment software?
 - Usually involves someone other than the one handling the process
 - Can occur while the process continues, at discrete points in the process, or at the conclusion
 - Key Control – usually involves some form of “approval”
 - Other control examples?

Discuss – How are controls and ethics related?

Identifying points of decision-making

- Purchasing is a decision-making process

BREAKOUT DISCUSSION – 10 Minutes

- Where are the key decision points in the purchasing process?
- Who gets to decide in each point identified in the process?
- At what points identified might ethical issues arise? (identify an example for each)
- How should conclusions be documented?

Capture answers for each, identify spokesman, report out to larger group

District policies and purchasing impact

Policies

- Are purchasing policies clear?
- Have policies been updated?
- Have federal requirements been built into policies?
- Are unique state purchasing requirements addressed?
 - Note - reference to MCL might help show where the requirement comes from but does little to aid understanding!
 - When laws are updated are policies?
- Is the separation of roles clear in the policies
 - Especially important to minimize tampering and specify approval processes

District policies and purchasing impact

Procedures

- Are purchasing procedures clear? For each type of purchase?
- Do procedures mirror policies? (are we doing what the policy requires?)
- Are procedures updated when policies are updated?
- How are changes communicated to those involved with purchasing, even outside administration?
- Is it clear how federal purchases are identified, uniquely handled?
- Are who, what, when, where, how addressed in procedures?
- Will “audit trail” show how a decision was made?
 - This is probably the best “protection” when a purchase is questioned later

Pragmatism vs rules

- Is it ever okay to not follow the rules?
- Should purchasing be a ridged process or a flexible process?
- Should judgement be part of a purchase decision?
- Low bid vs best value – which is “right”?
- Can reliance be placed on past vendor experience?
- Risk vs reward - how long should the process and controls take to complete a purchase?
- Risk of making a mistake – do all purchases carry the same weight?
- Preventing a mistake vs catching a mistake vs making a mistake?
- How do you reduce fraud risk?
 - Hint: this involves some brainstorming!
- Other pragmatic elements?

Purchasing Dilemmas

Breakout Discussions

- 10 dilemmas - pull pdf presentation
- Break out into 5 groups
- Time allowed - 13 minutes
- Each group discusses 2 dilemmas
 - Answer the “simple” question in each dilemma
 - Identify how best to approach solution
 - Identify possible “positive” outcomes
 - Identify possible “negative” outcomes
 - Capture conclusions use spokesman to report out.

Purchasing Dilemmas

group 1

Your superintendent or board member asks you to consider awarding to a bidder before the evaluation has started.

How do you handle this?

Purchasing Dilemmas

group 1

You have a bidder who says that they made a mistake on their bid and want to withdraw it. They are your low bidder.

What do you do?

Purchasing Dilemmas

group 2

The references for your preferred bidder come back good. When you check with your colleagues (that were not on the bidder's reference list), they do not recommend using the bidder. You have no reason to doubt the bidder's references or your colleagues.

What do you do?

Purchasing Dilemmas

group 2

Your evaluation team can not come to a consensus on a bidder to recommend. The matrix shows the team's top two bidders with the same score.

How do you decide which bidder to recommend?

Purchasing Dilemmas

group 3

Before your evaluation team has met, you find out that one of the team has spoken with other members to sway them to their preference. Now you are unsure if the scoring of all the members is unbiased.

How do you precede?

Purchasing Dilemmas

group 3

The Board President's company is bidding on a service contract. Comments have been made suggesting that the District should strongly consider using that company.

How do you precede?

Purchasing Dilemmas

group 4

P-Cards are used throughout the district. Procedures and controls are in place to verify the purchases, get receipts, and evaluate if personal expenses are included in the P-Card billing. Certain senior staff regularly have personal expenses included, and when identified the District is reimbursed timely.

How do you precede?

Purchasing Dilemmas

group 4

Larger purchases are required to be approved by department heads before the PO can be issued. It is clear the department secretary is “always” signing the approval vs the department head

How do you precede?

Purchasing Dilemmas

group 5

A purchase approved by department head is clearly not an allowable transaction. The expectation is that once approved the PO is processed.

How do you proceed?

Purchasing Dilemmas

group 5

PO's are required for items over \$10,000. You see purchases processed from the same vendor each under the \$10,000 threshold but together exceed \$10,000.

Is any follow up required? How do you proceed?

Purchasing Dilemmas

groups 1- 5

Groups report out

- Summarize each dilemma

- Key issues embedded in each

- Suggested approach to manage the dilemma

- Purchasing management risks/outcomes
- conclusions

Purchasing Ethics

How do you know you are successful?

- Measuring success:
 - Trust from colleagues, the superintendent, the board
 - Integrity in how the job is approached
 - Focus on understanding needs of users (remember you do not use any of this stuff!)
 - Creating value from resources used
 - Focus on finding solutions vs processing “paper”
 - Managing focused, purposeful processes
 - Effective checks and balances

Key Take Aways

- Ethics is a focused, principled mindset
- Integrity is the link between ethics and execution
- School purchasing requires adherence to myriad rules. School processes must focus on adhering to those rules. In doing so, balancing potential risks (costs) of noncompliance with the costs to ensure perfect compliance requires informed judgement
- Documenting procedures, controls, judgements is essential for effective purchasing

Finally, if your mom heard about it,
what would she think?

Purchasing Ethics, Dilemmas and Decision-making

Questions
Comments
Discussion



Finalize Credit for Attendance

New Process: The MSBO Evaluation is your record for attendance.

Please complete by March 14

- ✓ Receive an email from survey monkey for the MSBO evaluation. Your evaluation will be your record for attendance.
- ✓ Receive e-mail from MOECS-noreply@michigan.gov to fill out an evaluation for SCECHs.