



PUTNAM VALLEY CENTRAL SCHOOL DISTRICT FACILITIES INTERNAL AUDIT

Date: May 20, 2014

To: Jeanine Rufo, Board President

From: David E. Moran, Director of Education Practice

cc: Audit Committee
Ms. Ronnie Stowell, Interim Assistant Superintendent for Finance
Dr. Frances Wills, Superintendent

Subject: Facilities Internal Audit

Background

We have applied certain financial, compliance and operational audit procedures to the Facilities Operations functional areas of the Putnam Valley Central School District (the “District”) as of December 31, 2013. As a result of our most recent Risk Assessment Report, Internal Audit recommended this area for an in-depth review to determine ways to improve procedures, and establish increased accountability and stronger internal controls.

Audit Scope

Our responsibility was to assess the adequacy and effectiveness of internal controls over Facilities Operations in the District. We reviewed the period from July 1, 2012 through December 31, 2013. A detailed description of audit work performed is presented in the “Summary of Audit Procedures Performed” section of this report. These audit procedures performed are in accordance with *The International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

Executive Summary

As a result of the work performed, we noted the following observations that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. Recommendations were made to:

1. The Department should continue to maintain and, on a periodic basis, review its policies and procedures to ensure that new requirements and/or operational changes are reflected.
2. The District has adequate internal controls over supplies and equipment.
3. The District could better utilize its Work Order System. Specifically, the Work Order System could be used to track all costs (time, labor, and materials) associated with each work order, as well as assign a job priority, to more effectively manage Department operations.



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4. The Director of Operations should periodically generate Work Order System Reports and distribute them to the Superintendent, Interim Assistant Superintendent for Finance and Building Principals for review.
5. The District should consider implementing its new, automated Preventative Maintenance System.
6. The District has an adequate level of internal control over Facilities Use. However, it should have the individuals, who verify the invoice calculations, initial and date the documents after their review.
7. The District has an adequate level of internal control over compliance with certain provisions of the Commissioner of Education Regulations Part 155. However, the District needs to prepare and submit the annual School Facility Report Cards to the Board.

As a result of the work performed, observations were made that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. Based on the results of the procedures performed, the internal control structure is rated as “*Satisfactory*” The internal audit rating structure is defined below:

<i>Satisfactory</i>	Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings indicate modest weaknesses that require management's attention.
<i>Needs Improvement</i>	Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent further deterioration and possible losses.
<i>Unsatisfactory</i>	Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the institution.

We would like to thank the management and staff of the District for the assistance and courtesy extended to us during the course of our audit.

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Summary of Audit Procedures Performed

- Procedure 1 – Reviewed the District’s Board Policies and Department level Facilities policies and procedures.
- Procedure 2- Interviewed District management and staff: Interim Assistant Superintendent for Finance, Director of Operations, Technology and Transportation, District Treasurer, Custodians and office staff.
- Procedure 3- Reviewed and inspected the District’s supplies and equipment storage facilities.
- Procedure 4- Reviewed and tested a sample of 30 Work Order requests.
- Procedure 5- Reviewed and tested a sample of 5 Facilities Use Requests and invoices
- Procedure 6- Reviewed and tested the District’s compliance with certain provisions of the New York State Commissioner of Education’s Regulations Part 155.



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Recommendations to Enhance the System Of Internal Controls and Improve Operating Procedures

AREA: POLICIES AND PROCEDURES

Audit Findings/Observation:

Internal Audit reviewed the Operations Department (the “Department”) policies and procedures to determine if the Department has an adequate level of internal control. Specifically, Internal Audit interviewed the Director of Operations, Technology and Transportation (the “Director”) and staff, conducted site visits of school buildings, and reviewed documentation supporting the Department’s organization and functions district wide.

Internal Audit noted that the District has a Custodial Handbook, dated March, 2012 which contains job descriptions, custodial cleaning standards, custodial supplies and ordering, custodial safety, restroom care, equipment maintenance and a summary section for first aid emergencies. In addition, specialized instructions that are unique to specific school buildings are maintained at the respective buildings.

Internal audit also noted that the District has published the appropriate Policies for facilities on the District's website.

School District Risk/Opportunity:

In general, written policies and procedures help to enhance the District’s control environment. Documented policies and procedures help to ensure that Department functions are operating effectively and efficiently, that operations are meeting Management’s objectives, and are done in accordance with Board Policies and applicable laws and regulations. Policies and procedures are designed to provide guidance to staff, and to minimize the risk of errors, omissions, and abuses in daily operations. In addition, documented policies help to promote consistent application of management directives district wide. Overall, policies and procedures should be adequately communicated to all staff, and adherence should be periodically monitored to ensure that they are effective and are followed.

Audit Recommendations:

1. The Department should continue to maintain and, on a periodic basis, review its policies and procedures to ensure that new requirements and/or operational changes are reflected.

No Management’s Response required



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AREA: SUPPLIES AND EQUIPMENT

Internal Audit reviewed the Department's procedures for controlling equipment and supplies. Specifically, we reviewed inventory records for Grounds, Maintenance, and Custodial supplies and equipment. We interviewed staff and gained an understanding of how equipment is secured and controlled. Also, we performed a tour of the facilities, noting the locations of the Maintenance shop and Grounds storage areas.

Internal Audit reviewed the process for ordering and securing supplies. We noted that access to supplies, tools and equipment is controlled by the Building Head Custodian and Custodian, respectively. In general, we noted all storage areas, cabinets, and closets are locked and secured. Also, supply levels are periodically monitored, and orders are centralized at the Department Office.

School District Risk/Opportunity:

A significant portion of a district's budget is supplies and equipment. Thus, maintaining and controlling a supplies and equipment inventory is important in managing district operations. First, a district should maintain adequate record keeping of the inventory. Also, adequate supply levels should be maintained to ensure continuous day-to-day operations and that major parts are available when necessary. Periodic inventories should be performed to confirm items on hand. Also, storage facilities should be secured and controlled by limited access.

Districts should establish procedures to help management maximize the assets' functionality and expected useful life. Proper handling, storage, and maintenance of equipment can ensure an equipment's expected life. In general, major equipment should be inventoried and preventative maintenance schedules should be followed according to manufacturer's specifications and/or industry best practices. General guidelines for managing an assets' performance can help to minimize capital costs and maximize return on investment in the long run.

Audit Recommendations:

2. The District has adequate internal controls over supplies and equipment.

No Management's Response required



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AREA: PREVENTATIVE MAINTENANCE AND WORK ORDER SYSTEMS

Audit Findings/Observation:

Internal Audit reviewed and tested internal controls over the Work Order System (Maintenance Direct). To do so, we randomly selected 30 work orders from the period under review to test. We evaluated the completed work orders to ensure that adequate information was captured on the form; the work order was approved; work performed was consistent with the identified problem; and the response time seemed reasonable. We found that the Work Order System was utilized to manage Department operations at a basic level. However, many of the Work Order System's additional features have not been activated or used. Internal Audit noted that several of the Work Order Forms were not completed to indicate the time, labor, supplies and equipment costs. Also, there are additional management reports that can be generated from the Work Order System.

In addition, Internal Audit reviewed the internal controls over the Preventative Maintenance ("PM") System. Basically, the PM System is a combination of regular historical activities, combined with new requests that are processed via the Work Order System. One of the major regularly scheduled activities is the quarterly air filters changes for every classroom. Where appropriate, preventive to maintenance tasks are performed by outside contractors due to the requisite skill levels. The District, recognizing the need for a more complete an automated system, has acquired a companion module for the work order system but has not yet implemented the system

School District Risk/Opportunity:

A sound Work Order System allows the Facilities Department to effectively manage work requests from District staff. A good system facilitates the communication, response, and feedback between Building and Facilities Department staff. The work order system should provide an easy way for staff to submit a work request, monitor job status, and provide feedback upon job completion. Also, the work order form should provide enough information for its review, approval, and assigning of priority by Facilities staff and Management. The work order system should also track all costs associated with the work request. The purpose of the work order system is to more effectively manage department operations. Thus, reviewing of work order system reports can facilitate management's ability to analyze labor efficiency, supplies and equipment costs, and overall quality control.

A sound Preventative Maintenance System helps Districts maximize the useful life of buildings, systems, and equipment, and can help the District save money. A PM System is established on the idea that an "ounce of prevention" can save the District from emergencies and disruptions to the school schedule, and minimize the probability of damages accumulating and resulting in



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obsolete equipment, and other breakdowns and major repairs from occurring. In addition, a PM System is inherently tied to the District's budget, and can help the District effectively manage its capital expenditures in the long run, without severely impacting operating budgets. Lastly, a sound PM System is intricately woven into Facilities Department operations. The planning, scheduling performing, and monitoring of maintenance tasks can be done more efficiently with the help of a computerized system, and increases Management's ability to more effectively manage and monitor maintenance operations.

Audit Recommendations:

3. The District could better utilize its Work Order System. Specifically, the Work Order System could be used to track all costs (time, labor, and materials) associated with each work order, as well as assign a job priority, to more effectively manage Department operations.
4. The Director of Operations should periodically generate Work Order System Reports and distribute them to the Superintendent, Interim Assistant Superintendent for Finance and Building Principals for review.
5. The District should consider implementing its new, automated Preventative Maintenance System.

Management's Response:

The Operations Dept. will better utilize the Work Order System beginning in July, the beginning of the new school year. This will allow us time to get all outstanding work for this year updated and entered into the system. The new Preventive Maintenance System was just purchased and received in late March with the intent to implement this program to manage this function. It previously did not exist. Once staff has received training, it will go into effect.

Implementation Date:

7/1/2014

Responsible Party:

Director of Operations



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AREA: FACILITIES USE

Audit Findings/Observation:

Internal Audit reviewed the internal controls over the District's Facilities Use process. We found the District has formal procedures in place to process Facilities Use requests. First, the District established the Board Policy *1500 Public Use of School Facilities* that sets forth the policies and procedures governing the use of school space by students, community members, and the greater public. The District utilizes an automated system which can be accessed via the web. In order to facilitate the use of the system and ensure compliance with all aspects of the Policy, the District has published extensive instructions entitled "*Putnam Valley Central School District Building Use Information*". Not only does the site contain the board approved facilities use fee schedule but, it also contains the policies for damage deposits, custodial fees and insurance coverages. There is also a "conditions for use" document for The Performing Arts Center due to the complexity and special services that it can provide. Internal Audit randomly selected a sample of Facilities Use requests to test to ensure that the requests were processed in accordance with Board Policy. We found no exceptions. However, we did observe that there is an independent review of the fees and charges calculations for the invoices but there was no formal acknowledgement of the review.

School District Risk/Opportunity:

The District has established formal policies and procedures that set a framework for governing the public use of school property. In general districts should establish formal agreements when structuring community use of its facilities. Formal agreements assist districts with addressing legal concerns and communicating clear rules and regulations to govern the relationship. In addition, community groups should be required to provide certificates of insurance to protect the District against liability, loss or damage. A Facilities Use Application enables Districts to obtain adequate information about the group making the request, the purpose of the request, and how to appropriately assign priority, location, and level of custodial services required for the request. The request should be reviewed to ensure the requestor is a valid community member and the request is in accordance with Board Policy and Education Law. The Application should be appropriately approved by District Management. Also, districts should establish a Board approved Facilities Use Fee Schedule in order to consistently apply applicable fees and charges.

Audit Recommendations:

6. The District has an adequate level of internal control over Facilities Use. However, it should have the individuals, who verify the invoice calculations, initial and date the documents after their review.



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Management's Response:

The employee that is responsible for the verification of invoice calculations will be instructed to initial and date the documents after review.

Implementation Date:

Immediate

Responsible Party:

Interim Assistant Superintendent for Business

AREA: COMMISSIONER OF EDUCATION'S REGULATIONS PART 155

Audit Findings/Observation:

Internal Audit reviewed the District's compliance with certain provisions of the New York State Commissioner of Education's Regulations Part 155. Specifically, we determined if the District prepared the following reports:

- Five Year Building Condition Survey
- Five Year Facilities Plan
- Annual Visual Inspections
- School Safety Plans
- Fire & Building Safety Inspection Reports

In our review, we noted that the District does prepare the aforementioned reports. However, the School Facility Report Cards which, as stated in the District's *School Building Safety Policy 8110*, are required to be presented to the Board on an annual basis have not been prepared.

School District Risk/Opportunity:

School Districts should have policies and procedures in place to ensure compliance with New York State Commissioner of Education's Regulations Part 155 ("NYCRR Part 155"). NYCRR Part 155 was enacted as part of the implementation of 1998 Rebuilding Schools to Uphold Education ("RESCUE") Act to ensure school districts provide a suitable, adequate and safe learning environment that protects the health and safety of students and staff. The regulations provide for a Comprehensive Public School Safety Program, Uniform Code of Public School Building Inspections, Safety Rating and Monitoring, Health & Safety Standards, Fire & Building Safety; and Environmental Quality guidelines.



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Audit Recommendations:

7. The District has an adequate level of internal control over compliance with certain provisions of the Commissioner of Education Regulations Part 155. However, the District needs to prepare and submit the annual School Facility Report Cards to the Board.

Management's Response:

The School Report Cards will be reviewed with the Board at the July Business meeting. The update of the 5 Year Plan will first be accomplished and the report cards created from the input from the 5 Year Plan.

Implementation Date:

July, 2014

Responsible Party:

Director of Operations