



**PUTNAM VALLEY CENTRAL SCHOOL DISTRICT
PURCHASING & ACCOUNTS PAYABLE INTERNAL AUDIT**

Date: June 24, 2013
To: Valerie Fitzgerald, Board President
From: David E. Moran, Director of Education Practice
cc: Audit Committee
Ms. Ronnie Stowell, Interim Assistant Superintendent for Business
Dr. Barbara Nuzzi, Superintendent
Subject: Purchasing & Accounts Payable Internal Audit

Background

We have applied certain financial, compliance and operational audit procedures to the Purchasing & Accounts Payable functional areas of the Putnam Valley Central School District (the "District") as of May 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 Accounts Payable and Purchasing operations in the District. We reviewed the period from July 1, 2012 through May 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. Establish a procedure to ensure all date and time stamped bid envelopes received during a competitive bid are maintained in the bid files.
2. Develop and implement a new vendor form whereby the Purchasing Agent and the Purchasing Manager indicate their approval and set up of the new vendor in the District's financial management system.



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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 “*Needs Improvement.*” The internal audit rating structure is defined below:

- Satisfactory*** 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.
- Needs Improvement*** 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.
- Unsatisfactory*** 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 Purchasing and Accounts Payable policies and procedures.
- Procedure 2- Interviewed District management and staff: Interim Assistant Superintendent for Business (Board appointed Purchasing Agent), District Treasurer, Office Assistant (Accounts Payable Clerk), and the Internal Claims Auditor.
- Procedure 3- Reviewed and tested a sample of 5 competitive bids awarded in FY12/13.
- Procedure 4- Reviewed and tested a sample of 15 T&E Employee expense reimbursements totaling \$1672.27.
- Procedure 5- Reviewed and tested a sample of 25 cash disbursements totaling \$333,181.08.
- Procedure 6- Reviewed 15 new vendors added in FY12/13.
- Procedure 7- Reviewed and tested a sample of 10 Accounts Payable Warrants.



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

1. Purchasing

Observation

Internal Audit tested the competitive bid process. We reviewed the bid files to ensure they were conducted in compliance with District Purchasing Policies and General Municipal Law (“GML”). Specifically, we reviewed bid files to ensure that bid proposals had an adequate level of detail and specificity; advertisement for bids were formally and legally published; sealed bids were appropriately time stamped, processed and opened; bid analyses and bid award determinations were appropriate and sufficiently documented; and the Bid recommendations to award the bids were Board approved. We also noted that the Interim Assistant Superintendent for Finance instituted a policy of Board approvals for all contracts. In our review, we found the following document deficiencies:

- Sealed bid envelopes showing the date and time stamped received were not present.
- No bid opening logs, indicating date and time of formal opening and signed by at least 2 district representatives, existed for 4 of the 5 bids
- Bids are not assigned numbers, just descriptive names

Risk/Opportunity

School Districts are required by state law to request bids for goods and services, when the expenditure exceeds the dollar amounts established by GML. Obtaining bids for goods and services helps to encourage competition and getting the best price in the purchase of goods and services that are paid from public funds. Competitive purchasing policies and procedures are essential internal controls that help to ensure all recognized and responsible vendors are given equal opportunity to supply the District, prevent favoritism of one vendor over another, keep District residents informed of the purchasing function, and help to prevent error, abuse, and fraud. Specifically, date and time stamping of the sealed bids provides evidence that sealed bids were received by the District up until the Bid Open time. Similarly, a formal bid opening log should be created and witnessed by two District employees. This ensures that no one vendor is given preferential time and opportunity to develop their bid offer. In addition, to ensure appropriate preparation and conduct of competitive bids, a Bid and RFP Calendar should be established to ensure that all expenditures are procured in compliance with bidding requirements. In general, the Purchasing Agent should work with Department heads to create the calendar, assess Department needs, and help determine if services should go out to bid or RFP on an annual basis.



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Recommendation:

Establish procedures to ensure:

1. All bid envelopes received during a competitive bid are date and time stamped and maintained in the bid files.
2. Bid opening logs, indicating date and time of formal opening and signed by at least 2 district representatives, are prepared.
3. Sequential bid numbers are assigned for each competitive bid.

Management's Response:

1. The District currently writes in the date the bids are received on the sealed envelopes. The District will purchase a time and date stamp in July and inform the office staff members who receive bids to make sure that they are given to the District Clerk who will stamp them to record the date and time of the acceptance of the bids.
2. The District will have two representatives sign the bid logs at the opening of the bids. This will occur immediately.
3. Sequential bid numbers are currently assigned to each competitive bid. This was implemented in January 2013 and will continue.

Responsible Individual: Interim Assistant Superintendent for Business

Target Date: July 31, 2013

2. Accounts Payable-Cash Disbursements

Observation

Internal Audit reviewed and tested internal controls over cash disbursements. Internal Audit reviewed the claims to ensure that the claim for payment was appropriately authorized and approved; adequate documentation supported the claim, services were independently verified; the claim reconciled to contract terms; and the claim was timely processed. In our review, we found no significant deficiencies. We did note one example of payment authorization that was missing the date of the authorization and one confirming purchase order.

Risk/Opportunity

Good internal controls over the accounts payable and cash disbursement process helps to ensure that actual expenditures are in line with the District budget, and help to prevent fraud and misappropriation of District assets. In general, all expenditures should be supported with adequate documentation and sufficient itemization to ensure that goods were received,



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services were rendered, and validate that the nature of the expense was an appropriate school district expense.

Purchase order descriptions should not read "Open P.O." or "Blanket P.O.," without any further description or explanation as to the purpose and nature of the expenditure. This further complicates the Purchasing Agent's ability to determine the items procured. The Purchasing Agent should require specific and detailed information on Purchase Requisitions, to facilitate the review of expenditures by Purchase Order and Vendor, and to facilitate the review of claims against agreed upon terms.

Recommendation:

The District should continue their processes and controls for cash disbursements and insure that all signed approvals are also dated.

Management's Response:

No response required

3. *Travel & Expense ("T&E") Employee Reimbursements*

Observation

Internal Audit reviewed the internal controls over the Travel & Entertainment ("T&E") employee expense reimbursement process. Specifically, we reviewed the employee claims for reimbursements to ensure they were appropriately approved and processed; and were in compliance with applicable District Policies and procedures. In our review, we noted no instances of significant deficiencies.

Risk/Opportunity

T&E expense reimbursements usually require a greater level of scrutiny and review to ensure that the associated travel, conference, related expenses, and other miscellaneous expenses are "actual and necessary" and therefore eligible for reimbursement according to GML. In addition, T&E reimbursements should be reviewed to ensure that reimbursement or expenditures claims are not circumventing already established purchase requisition procedures. All T&E reimbursements should be appropriately approved, sufficiently supported by documentation, and in compliance with Board Policies and applicable rules and regulations. Districts should have formally documented procedures specifying the type of expenditures eligible for employee reimbursement, the form and instructions for submitting claims for reimbursement, and the supporting documentation required to approve T&E



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reimbursements. In addition, best practice dictates T&E reimbursements should be submitted through the purchase order process.

Claims for employees' T&E expense reimbursements should provide adequate supporting documentation to validate the type, amount, and nature of the expense. Itemized meal receipts should be attached to ensure Districts do not reimburse expenses for alcohol or sales tax. Direct supervisory approval of Employee T&E expenses and claims should be documented to ensure proper management oversight. In addition, modifications to T&E requests, such as extensions of travel or additional expenses not originally submitted for approval, should be approved by Management, and procedures for re-submitting the modifications to prior approved expenses should be established. The District should ensure the changes constitute a legitimate District expense, and are not changes for personal reasons.

Recommendation:

Continue the District wide practices for submitting Travel and Entertainment ("T&E") employee expense reimbursements to ensure appropriate supervisory approval is obtained, adequate supporting documentation is submitted, and to prevent circumvention of already established purchase requisition procedures.

Management's Response:

No response required

4. New Vendors

Observation

Internal audit reviewed the internal controls over the addition of new vendors for the District. Specifically we reviewed the documentation and process by which the vendors were approved and then formally added to the District's financial management and accounting system. Although the Office Assistant, with the Interim Assistant for Business's approval, is the only individual that can add new vendors to the system, and will not do so unless she has received the formal W-9 form containing the taxpayer ID and the address, there is no formal new vendor form which allows the purchasing agent to indicate her approval of the new vendor's addition to the system.

Risk/Opportunity

School districts regularly seek new vendors to provide additional sources of supplies and services. In so doing, this practice permits more choices and opportunities for better prices for services and supplies for the district. Best practices indicate that districts should always require not only a W-9 form with the proper tax number identification, but also an address



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that contains a street address and not just a PO Box number.

When a new vendor is selected by the district, the controls surrounding the set up of the new vendor should contain multiple reviews. The office assistant, in conjunction with other individuals/departments who have recommended the new vendor, determines if the vendor meets the district's criteria. The office assistant should then obtain the approval of the purchasing agent before entering the vendor into the system. The combination of documentation reviews, references if appropriate, and sign offs by both the office assistant and purchasing agent should ensure that new vendors meet the districts criteria to become a legitimate source of services and/or goods for the district.

Recommendation:

The District should develop and implement a new vendor form whereby the Purchasing Agent and the Office Assistant indicate their approval and set up of the new vendor in the District's financial management system.

Management's Response:

The Interim Assistant Superintendent for Business will develop and implement a form for new vendors to be approved prior to them being set up in the financial management system. This form will be available by September, 2013.

Responsible Individual: Interim Assistant Superintendent for Business

Target Date: September, 2013

5. Internal Claims Auditing

Observation

Internal Audit reviewed the internal controls in place over the claims audit process. We reviewed policies and procedures to ensure that the Claims Auditor does not have incompatible duties, directly and periodically reports to the Board, and follows adequate and appropriate procedures while performing the claims audit. In our review, we found no major control deficiencies. We noted that the new financial accounting system, Finance Manager, is being implemented and will provide the District with additional information and enhanced controls. As an example, the new system will produce new Payroll warrants which should be reviewed along with the other warrants by the Claims Auditor.



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Risk/Opportunity

By auditing, allowing, or rejecting claims in the warrant, the claims audit function serves as an added internal control over the purchasing and accounts payable processes. By law, the Board is responsible for the audit of claims. Most school districts delegate the responsibility to a Claims Auditor. The Board appoints a Claims Auditor to act on the Board's behalf, and the Claims Auditor should report directly to the Board, provide periodic audit reports to the Board, and discuss any problems so that they may be addressed and resolved within the powers and duties of the Board.

In general, the Claims Auditor is responsible for ensuring that only valid and legal claims against the District are paid. The Claims Auditor should ensure that proper documentation and itemization are provided to support the expenditure, the payment is for an actual and necessary school district expense, and the expenditure was properly authorized and approved. In addition, the Claims Auditor should ensure the claim meets the competitive bidding requirements of GML and that of the District's Purchasing Policy.

The Claims Auditor should adequately document his/her audit of the claims to evidence that all claims were audited prior to payment. The Claims Auditor should also mark or initial the line item/check number on the corresponding Warrant. This would provide evidence that the audit of claims was completed for all claims and checks to be disbursed, listed on that particular Warrant.

The Board should ensure that the criteria for auditing claims includes reviewing the claim to ensure that it meets General Municipal Law's legal competitive bidding requirements and the District's Purchasing Policy, as recommended in the New York State Office of the Comptroller Brochure "Improving the Effectiveness of Your Claims Auditing Process." To do so, the Claims Auditor should reconcile claims to contracts and written quotes and bids.

Recommendation:

The District should continue its procedures for the Claims Audit process.

Management's Response:

No response required