OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT SERVICES
& ECONOMIC DEVELOPMENT

Groton Central School District

Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2004 - May 16, 2006

2006M-174

Table of Contents

		Page
AUTHORITY LETTER		3
INTRODUCTION		5
	Background	5
	Objective	5
	Scope and Methodology	5
	Comments of District Officials and Corrective Action	6
INTERNAL CONTROLS OVER PURCHASING		7
APPENDIX A	Response From District Officials	8
APPENDIX B	Audit Methodology and Standards	10
APPENDIX C	How to Obtain Additional Copies of the Report	11
APPENDIX D	Local Regional Office Listing	12

State of New York
Office of the State Comptroller

Division of Local Government Services
and Economic Development

December 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. These reports also may identify positive aspects of school district operations that other school districts may wish to emulate. The following is our report on the Groton Central School District — Internal Controls Over Purchasing.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government Services
and Economic Development

Introduction

Background

The Groton Central School District (District) is located in the Towns of Groton, Dryden and Lansing in Tompkins County; Summerhill and Locke in Cayuga County; and Homer in Cortland County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are two schools in operation within the District, with approximately 1,096 students and 140 employees. The District's budgeted general fund expenditures for the 2005-2006 fiscal year were about $13,807,000, funded primarily with State aid, real property taxes and grants.

One of the Board's managerial responsibilities is to establish of a system of internal controls over purchasing designed to help ensure the prudent and economical use of its moneys when procuring goods and services.

Objective

The objective of our audit was to review internal controls over purchasing. Our audit addressed the following related question: are internal controls over purchasing appropriately designed and operating effectively?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We decided to concentrate our audit efforts in the area of purchasing and therefore, we examined internal controls for the period July 1, 2004 to May 16, 2006.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with the information contained in our report.

Internal Controls Over Purchasing

It is the responsibility of the Board to establish policies and procedures relating to the purchasing of goods/services. An effective internal control system should include policies and procedures intended to provide reasonable assurance that all purchases are properly initiated, supported, and approved as well as recorded timely and accurately. Employees submit requisitions with any supporting documents to their immediate Supervisor who reviews, approves and forwards them to the Purchasing Agent. After verifying that budgetary appropriations are available, the Purchasing Agent approves and forwards the requisitions to the Accounts Payable Clerk who then inputs the requisition information into the District's accounting system, prints out the pre-numbered purchase orders generated by the system and sends the purchase orders to the vendors. When the goods or services are received, the original requisitioners submit receipt documentation to the Accounts Payable Clerk who then prepares claims packets consisting of copies of the approved requisitions, purchase orders and proof of receipts and vendors invoices for the Claims Auditor. The Claims Auditor audits the claims packets and after approval for payments, the checks are mailed to vendors.

We reviewed internal controls over the purchasing process to determine if they were appropriately designed and operating effectively. Our examination included interviewing local officials; testing 169 judgmentally selected claim packets for proper authorization and compliance with the District's purchasing policy; scanning warrants for travel expenditures and credit card purchases and reviewing related claim packets for authorization, reasonableness and proper support; and testing for conflicts of interest.

We determined that the Board has established and designed appropriate internal control policies and procedures over purchasing and that these policies and procedures are operating effectively to protect assets.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

Groton Central School

District Office
PO Box 99
Groton, New York 13073

December 1, 2006

Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Office of the State Comptroller:

The Groton Central School District recently completed the state audit process. We found the process to be supportive and informative. The goals and tasks were clearly defined and we understood the purpose of the audit; therefore, we were able to clearly communicate that to our Board, staff, and community. Although the process included a large volume of work for our team, the representative from the comptroller's office was easy to work with, including fair timelines, and reviewed with us carefully the records she needed and what she was doing. During her interaction with our staff, she was friendly and helped to put them at ease, which is important in a quality auditing process.

The most difficult part of the process was the extended timelines. We were notified that we would be taking part in the process in December of 2005, and we had our exit meeting in December of 2006, approximately six months after the audit on site was completed. Although we did receive informal feedback, it has been a long wait to receive the final written report.

The Groton Central School Board, administration, and staff are committed to excellence, and the results of this audit highlighted how a small district can build controls and processes to protect the investment of our taxpayers and to hold ourselves to a high level of fiscal accountability. We feel this positive audit is a clear demonstration of our strong financial program and we appreciate the comptroller's office recognizing our district as an exemplar in this area.

Sincerely,

David Parsons
Groton Central School, Board President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its database(s). Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the areas we reviewed. We selected internal controls over purchasing for further audit testing. We selected 169 claims packets for audit testing,

To accomplish the objective of this audit, our procedures included the following:

- We reviewed pertinent documents including cancelled checks, bank statements, purchase requisitions, purchase orders, claim packets, and warrants to determine if purchases were properly initiated, supported, approved and recorded.

- We compared information included on cancelled checks to verify that it agreed with information on the related claims packets and warrants.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those district operations within our audit scope. Further, those standards require that we understand the district's management controls and those laws, rules and regulations that are relevant to the district's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings and conclusions contained in this report.

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