



Schenevus Central School District Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2004 - April 10, 2006

2006M-161



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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. The following is our report on the Schenevus 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. The report contains opportunities for improvement for consideration by school district officials.

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 Schenevus Central School District (District) is located in the Towns of Decatur, Maryland, Milford, Roseboom, and Westford in Otsego County. The District is governed by five elected members who comprise the Board of Education (Board). 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. The District's purchasing agent must approve all purchases.

There is a main school building which houses Kindergarten to Grade 12 students. The District employs approximately 130 people, and has an enrollment of approximately 400 students. The District's budgeted expenditures for the 2005-06 fiscal year were approximately \$6.3 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to determine if District officials were properly safeguarding their financial resources. Our audit addressed the following related question:

- Were internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?

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 did determine that risk existed in the purchasing area and therefore, we examined the transactions and financial activity of the District for the period July 1, 2004 to April 10, 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 and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law, and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Controls Over Purchasing

One of the Board's managerial responsibilities is the establishment of a system of internal controls designed to provide reasonable assurance that District assets are properly safeguarded and purchases are made in accordance with District policy. A good system of internal controls provides for the timely identification of errors and/or irregularities which may occur, so that District officials may take corrective action. Once established, the Board has the responsibility to periodically monitor the controls to ensure that they are operating properly.

A main component of the District's internal controls system relates to formally adopted policies and procedures governing the purchasing function. An effective purchasing system ensures that purchases are approved and authorized prior to orders being placed, established policies and procedures are being followed, and that purchases are supported and represent proper charges against the District.

The Board-adopted purchasing policy requires District staff to complete appropriate purchasing forms, and two different District officials to approve purchases, and prepare and approve other forms related to the purchasing function, before staff can place the orders. In addition, the policy requires District personnel to obtain quotes, which they must retain on file, for all purchases that cost more than \$750.

We reviewed 124 claims totaling about \$604,000 and found that although the District's internal controls over purchasing were appropriately designed, they were not operating effectively in the following areas:

- The purchasing agent did not approve 51 purchases. These purchases totaled about \$58,000, and were for miscellaneous classroom, cafeteria and cleaning supplies, and athletic equipment.
- The District Treasurer prepared 11 purchase orders after District personnel made the purchases. These purchases totaled about \$5,300, and were for classroom and playground supplies.
- Of the 124 purchases reviewed, 34 purchases required solicitation of quotes. We found that District staff did not solicit quotes for seven of these 34 purchases. These purchases

totaled \$21,355, and were for audiovisual and athletic equipment, and classroom supplies.

These deficiencies occurred because the Board failed to monitor or otherwise oversee the purchasing function to ensure that District staff adhered to adopted District policies, and because the Claims Auditor did not check claims for compliance with Board-adopted purchasing policies as part of the claims audit process. The Board's failure to monitor the purchasing function and the Claims Auditor's failure to perform a proper audit of claims increases the risk that District moneys may be expended for inappropriate purposes, and that errors and irregularities may not be detected and corrected in a timely manner.

Recommendations

1. The Board should monitor the purchasing function to help ensure that all staff members follow the requirements and procedures of the District's procurement policy, including obtaining quotes for goods and/or services, as required.
2. The Board should ensure that the Claims Auditor checks claims for compliance with Board-adopted purchasing policies as part of the claims audit process.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SCHENEVUS CENTRAL SCHOOL

ANDREW S. DRAPER C.S.

LYNDA A. BOOKHARD
Superintendent
MARIE E. MCCREA
Principal



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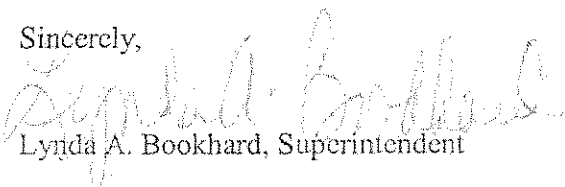
December 14, 2006

[REDACTED]
Office of the State Comptroller
Division of Local Government Services
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901

Dear [REDACTED]

The Board of Education and the Superintendent of Schools of the Schenevus Central School District accept, without dispute the draft of the audit report completed by your office.

Sincerely,


Lynda A. Bookhard, Superintendent

Cc: Douglas Fielder, 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 databases. 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. 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 then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected internal controls over purchasing for further audit testing.

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

- We reviewed warrants and selected approximately 95 processed claims (3.5 percent of all claims processed) for appropriate audit testing. We also judgmentally selected 19 payments that the District made to Wal-Mart and all 10 credit card payments made to MBNA for specific testing, as these payments appeared to have a higher risk that they might not be appropriate District expenditures. In total, we selected 124 claims for testing.
- To ensure that the District did not make any improper payments during our audit period, we verified that selected claim packages were complete by reviewing them to ensure that District personnel included copies of related requisitions forms and other supporting documentation such as receiving documentation and invoices, in the packages; the purchasing agent approved purchase orders; staff complied with the District's purchasing policy; the expenditures were proper charges against the District; and that the claim packages contained verification that the District received the goods.
- We compared selected claims packages to the cancelled checks and warrants, and reviewed them for any discrepancies between date, payee, amount, and endorsement.

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, conclusions and recommendations contained in this report.

APPENDIX C

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