



Taconic Hills Central School District Purchasing and Claims Processing

Report of Examination

Period Covered:

July 1, 2004 - April 24, 2006

2006M-147



Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	6
Comments of District Officials and Corrective Action	6
PURCHASING AND CLAIMS PROCESSING	7
Procurement Practices	7
Claims Processing	8
Recommendations	10
APPENDIX A Response From District Officials	11
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

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 Taconic Hills Central School District — Purchasing and Claims Processing.

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 Taconic Hills Central School District (District) is located in the Towns of Ancram, Austerlitz, Claverack, Copake, Gallatin, Ghent, Hillsdale, Livingston, Taghkanic, and Northeast. The District is governed by the Board of Education (Board) which comprises nine 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 three schools in operation within the District, with 1,745 students attending these schools during the 2005-06 fiscal year. The District has a workforce of approximately 369 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$28,972,988, which were funded primarily with State aid and real property taxes.

The purchasing function is centralized in the Business Office under the general supervision of the Purchasing Agent. The Purchasing Agent is responsible for developing and administering the purchasing program of the District. The Board designated the District's Business Official as the Purchasing Agent for the District. In July 2003, the Board adopted a procurement policy that governs District purchasing and related activities. The Board also delegated the responsibility for auditing and approving payment of claims to an Internal Claims Auditor. This responsibility entails an examination of each claim to ensure goods and services are procured in accordance with pertinent statutes and District policies and procedures.

Objective

The objective of our audit was to determine if the District's internal controls over purchasing and claims processing were appropriately designed and operating effectively. Our audit addressed the following related question: has the District established adequate internal controls over purchasing and claims processing to protect District assets against fraud, abuse, and professional misconduct, and are those controls 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 did determine that risk existed in the purchasing and claims processing areas and, therefore, we examined the District's internal controls related to purchasing and claims processing for the period July 1, 2004 to April 24, 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 plan 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*.

Purchasing and Claims Processing

A good system of internal control consists of policies, practices, and procedures that allow a school district to provide reasonable assurance that it is using its resources effectively (i.e., prudently and economically), and that it is complying with applicable laws and regulations. A major component of a good system of internal control is management's attitude toward, and support for, internal controls, and that it regularly monitors such controls to make sure they are working effectively. The Board is responsible for designing internal controls that help safeguard the District's assets, ensure the prudent and economical use of District moneys when procuring goods and services, and that protect against favoritism, extravagance, fraud, and corruption. Certain controls are designed to prevent errors and irregularities from occurring. Other controls act to detect errors and irregularities in a timely manner. When it comes to procurement, a good system of internal control uses each of these types of controls to minimize the risk that errors or irregularities may occur and go undetected. It is important for the District to have a procurement process in place that ensures the District obtains needed goods and services at economical prices, and provides appropriate controls that prevent District officials from overspending the Board-approved budget. The claims audit function helps ensure that the District pays only those claims that are properly supported, and that represent actual and necessary District costs.

We found that while the District has adopted policies that address competitive bidding and claims processing, District personnel have not completely complied with the policies because District officials did not always enforce them. For example, District officials failed to ensure that District personnel documented verbal and/or written quotes for purchases made during the 2004-05 and 2005-06 fiscal years. Also, District personnel did not support payments with requisitions and/or invoices and, in certain instances, personnel did not properly use purchase orders. In addition, the District did not have adequate procedures in place to prevent District officials from incurring expenditures and encumbering funds without sufficient budgetary appropriations. As a result, District officials may have overspent District resources or wasted taxpayer dollars.

Procurement Practices

General Municipal Law (GML) requires school districts to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding. It is important

that these policies and procedures contain provisions that require District personnel to purchase these goods and services using written verbal quotations, descriptions of each method of procurement, descriptions of the procedures for determining which method to use, and descriptions of the types of documentation that personnel must provide when procuring these goods and services. To meet this requirement, the District adopted a policy and regulation¹ that provide guidance to District officers and employees involved in procuring goods and services. The procurement policy requires District personnel to obtain verbal and written quotations from various vendors prior to procuring certain goods and services. The District's procurement policy requires staff to solicit and obtain quotes, document the quotes on the purchase packets, and retain the documentation on file.

We reviewed 16 purchases for which District personnel were required to obtain written or verbal quotes, and found that District personnel did not obtain quotes for 13 payments, totaling \$103,562. For example, the District paid \$10,803 for indoor environmental quality testing. However, District personnel did not include documentation in the purchase package² that showed they had solicited two written quotes before making the purchase, as required by the District's policy.

The District's procurement guidelines also require the Business Official to annually evaluate the internal control structure to ensure that District personnel comply with the procurement policy. We found no written evidence that the Business Official performed this annual evaluation, or that District officials made any efforts to enforce compliance with the District procurement policies and GML. As a result, District personnel did not always comply with the District's procurement policy.

The failure of District officials and employees to follow the District's procurement policy increases the possibility that the District may not acquire goods and services in an economical manner, which can result in excessive costs to District taxpayers.

Claims Processing

The Board-adopted procurement policy³ requires District personnel to use purchase orders and include invoices with each claim. Furthermore, with few exceptions, Education Law requires school districts to audit and approve each claim before making payment.⁴

¹The District adopted Policy 5410R.1-Procurement Guidelines in May 1999, and Regulation 5410.R.1 in February 2006.

²A purchase packet consists of purchase orders, requisitions, invoices, and receiving slips.

³Regulation 5410.2 Competitive Purchasing of Good and Services

⁴Education Law, Section 1724

The Board or a Board-appointed claims auditor can perform this function. The use of a claims auditor can save time for the Board, and help ensure prompt payment of District bills, thereby allowing the District to take advantage of any discounts offered for prompt payment. In 2003, the District adopted a claims auditing policy⁵ and appointed an Internal Claims Auditor to audit and approve claims against the District. Among other things, the Internal Claims Auditor is responsible for ensuring that proposed payments are for valid and legal purposes; are in proper form and mathematically correct; are in agreement, when applicable, with a requisition and purchase order; and meet other legal requirements established by the Regulations of the Commissioner of Education, and/or Comptroller of the State of New York.

We reviewed 85 purchase packets, totaling \$209,012, which represent approximately 2 percent of the District's total payments made during the period July 1, 2004, to April 24, 2006. We found that the Board has not adequately implemented internal controls over the audit, processing, and payment of purchase packets, as follows:

- We reviewed 75 of the 85 payments that required requisitions. Of these 75 payments, we found that District personnel did not support 52 purchases, totaling \$129,695, with purchase requisitions.
- We reviewed 50 of the 85 payments to determine whether District personnel used purchase orders, and found that staff had dated the purchase orders in eight of the payment packets, totaling \$12,590, after the actual purchase date of the items. In addition, we found that in four of the 50 payments, totaling \$1,626, staff had made purchases whose cost exceeded the purchase order amounts.
- We reviewed 65 of the 85 payments to determine whether District personnel included invoices and/or receipts in the purchase packets, and found that eight of the 65 payments, totaling \$8,277, did not contain an invoice or receipt.

District officials' failure to correctly process claims may result in the District making payments for unauthorized purchases, or in wasting taxpayer moneys by making purchases that are not cost effective. Furthermore, the inherent benefits of a purchase order system can be obtained only if District personnel properly use purchase orders.

⁵Policy 1335 — Appointment and Duties of the Internal Claims Auditor

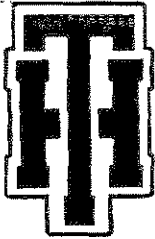
Recommendations

1. The Board and District officials should monitor and enforce compliance with the District's procurement policies and regulations relating to verbal and written quotes.
2. The Board should ensure that the Internal Claims Auditor conducts a proper audit of claims in accordance with laws, regulations, and District policies.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



TACONIC HILLS CENTRAL SCHOOL DISTRICT

David A. Paciencia
Superintendent of Schools

Thomas D. Buccino, Jr.
*Director of
Organizational Development*

December 5, 2006

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Mary M. Grden
School Business Official

Robert McGhee
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Albany, New York 12205

Dear [REDACTED]:

Please be aware the members of our Board of Education, our School Business Official and I are in receipt of the "draft" copy of your "Report of Examination", and we also were present for the exit interview. In response to the draft for the purposes of completing "Appendix A" of your report, I am offering the following:

There are three (3) schools within our campus facility. I have concern about the use of phrases such as "...may have overspent District resources or wasted taxpayer dollars" and "...which can result in excessive costs to District taxpayers" when, in fact, this district has proven to be very frugal with its taxpayers' dollars. Our recent history has shown that this District returns additional funds to its taxpayers in August once new State Aid is assured, unlike other school districts. My concern is that the inclusion of these kinds of phrases could be misinterpreted as an actual finding rather than a routine boilerplate advisory for a future administration.

Please be aware that we feel that we were treated very fairly by your auditors, and we learned a great deal from them by going through this experience. Your representative, [REDACTED] was very thorough and very professional with us. The District has already taken actions for addressing the items that were brought to our attention. All purchases will be made in accordance to Board policy, including requisitions and purchase orders in advance. Invoices will not be paid exceeding the approved purchase order amount without prior approval - we have taken steps to safeguard against added freight costs. Budget transfers will be approved in advance and before purchase orders are released to assure adequate and appropriate funding. Quotes (or bids) will have the required verbal or written documentation attached to the purchasing package as per the District procurement policy. Payments will not be made without the receipt and the original invoice. Every effort will be made to secure a signed packing list. In addition to meetings, memos and staff handbooks, the School Business Official will annually evaluate, in writing, the District purchasing procedures. Lastly, all documents will be in place prior to the submission to the Internal Claims Auditor for final review.

Thank you for this experience, and thank you for the opportunity to react to the report and to share with you our immediate operational modifications.

Sincerely,

David Paciencia
Superintendent

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, with the help of District personnel, 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 objectives and scope by selecting for audit those areas most at risk. We selected purchasing and claims processing for further audit testing.

Within the purchasing area we focused our attention on the approval of purchases, and approval of payment for various types of goods and services acquired, including purchase packets for reimbursement of expenses for officials and employees and credit card charges. We also focused on adherence to District policies and procedures, as well as pertinent laws and regulations related to purchasing. We examined the following records to determine the effectiveness of internal controls pertaining to the claims processing function and to identify any associated effect of deficiencies found in those controls:

- Vendor payment history reports
- Purchase requisition forms
- Warrants
- Purchase orders
- Bid files
- Purchase packets
- Appropriation status reports
- Lists of Board members and administrators
- Policy manual
- Treasurer's reports
- Minutes of the proceedings of the Board of Education

During this audit, we examined the records and reports of the District Treasurer for the period July 1, 2004, to April 24, 2006. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed appropriate District officials to obtain an understanding of the organization, the District's accounting system, and to identify key personnel.
- We reviewed District policies and procedures, and evaluated their adequacy.
- We reviewed the District's financial records and reports to ensure that District personnel were properly recording transactions.
- We interviewed appropriate District officials to learn about procedures used to prepare and approve purchase packets for payment. We reviewed 85 purchase packets prepared during the 2004-05 and 2005-06 fiscal years to determine if payments were properly supported, approved, and recorded in accordance with management's directives and legal requirements.
- To test for over-expended or over-encumbered appropriation accounts, we judgmentally selected and tested 50 general fund budgetary accounts, which represented approximately 15 percent of the accounts that were active during the District's 2004-05 fiscal year.

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.

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