



Westmoreland Central School District Internal Controls Over Procurement and Capital Assets

Report of Examination

Period Covered:

July 1, 2004 - June 30, 2005

2006M-30



Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
Background	7
Objectives	7
Scope and Methodology	7
Comments of District Officials and Corrective Action	8
PROCUREMENT	9
Recommendation	11
CAPITAL ASSETS	12
Recommendations	14
APPENDIX A Response From District Officials	15
APPENDIX B Audit Methodology and Standards	18
APPENDIX C How to Obtain Additional Copies of the Report	20
APPENDIX D Local Regional Office Listing	21

State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

June 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 Westmoreland Central School District — Internal Controls Over Procurement and Capital Assets.

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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Westmoreland Central School District (District) is governed by the Board of Education (Board) which is comprised of 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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

On an annual basis, the Board appoints an Internal Claims Auditor who assumes the powers and duties of the Board with regard to approving or denying claims against the District. Responsibilities relating to the District's finances, and accounting records and reports are largely those of the District's Business Administrator and the Treasurer. The Business Administrator also is the District's purchasing agent and is responsible for the District's capital asset records. All financial transactions are processed by the Madison-Oneida Board of Cooperative Education Services (BOCES) in conjunction with BOCES's Mohawk Regional Information Center.

Scope and Objectives

The objective of our audit was to examine the District's internal controls relating to procurement and capital assets for the period July 1, 2004 to June 30, 2005. Our audit addressed the following related questions:

- Did the Board implement and monitor adequate internal controls relating to the procurement of goods and services?
- Did the Board implement adequate internal control policies and procedures to protect and account for District capital assets?

Audit Results

We found instances where the Board had either not established critical internal controls, or where the controls that it had established were not implemented or operating effectively. As a result, District personnel are not following the District's procurement policy, and District officials are not properly protecting the District's capital assets.

Although the Board has a policy detailing the circumstances in which District personnel must obtain quotations for the procurement of goods or services, the staff is not complying with the policy. None

of the 23 purchases totaling approximately \$200,000 that we examined contained documentation relating to either oral/written quotes or requests for proposals from vendors. Furthermore, we found no written evidence documenting that a \$31,150 public works contract for the installation of a security system was exempt from competitive bidding due to a sole-source determination. Because District officials and employees have failed to follow the Board's procurement policy, by not having the required documentation on file concerning the soliciting of competition, the District has a higher risk of acquiring goods and/or services at increased costs. Due to the lack of such documentation, the Board has no assurance that the procurement process is operating effectively.

District officials did not ensure that capital assets are protected from loss by: assigning responsibility for maintaining capital asset records to someone independent of the purchasing process; maintaining complete, accurate, and up-to-date perpetual inventory records; conducting periodic inventories; decaling or tagging all District assets; and approving the transfer of any capital assets to District employees. As a result, the District has incomplete and outdated information on capital assets, which exposes the District to possible errors and irregularities (including fraud) that may occur and may not be detected. Also, without up-to-date inventory records, the District may incur unnecessary insurance costs.

Comments of District Officials

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

Introduction

Background

The Westmoreland Central School District (District) is located in the Towns of Westmoreland, Whitestown, and Vernon, and in the City of Rome in Oneida County. The District has three schools in operation, with approximately 1,100 students, and 215 full- and part-time employees. The District's budgeted expenditures for the 2004-05 fiscal year were \$15.6 million, which were funded primarily with State aid, real property taxes and grants.

The District is governed by the Board of Education (Board) which is comprised of 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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. On an annual basis, the Board appoints an Internal Claims Auditor who assumes the Board's powers and duties with regard to approving or denying claims against the District. Responsibilities relating to the District's finances, and accounting records and reports are largely those of the District's Business Administrator and the Treasurer. The Business Administrator also is the District's purchasing agent and is responsible for the District's capital asset records. All financial transactions are processed by the Madison-Oneida Board of Cooperative Education Services (BOCES), in conjunction with BOCES's Mohawk Regional Information Center, using a software package known as Finance Manager. The District's financial statements undergo an annual audit by an independent CPA firm.

Objectives

The objective of our audit was to examine the District's internal controls relating to procurement and capital assets. Our audit addressed the following related questions:

- Did the Board implement and monitor adequate internal controls relating to the procurement of goods and services?
- Did the Board implement adequate internal control policies and procedures to protect and account for District capital assets?

Scope and Methodology

During this audit we examined the internal controls relating to procurement and capital assets of the Westmoreland Central School District for the period July 1, 2004 to June 30, 2005.

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, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

Procurement

An internal control system, which is established and implemented by District officials, is the integration of the activities, plans, attitudes, policies and efforts of the people of an organization to provide reasonable assurance that the organization will achieve its objectives. The objectives of a procurement process are to obtain services or buy materials, supplies and equipment of the right quality, in the right quantity, from the right source, at the right price, in compliance with all applicable Board and legal requirements. The District's procurement policy and competitive bidding laws also are designed to guard against favoritism, improvidence, extravagance, fraud and corruption, and to foster honest competition to ensure that the District obtains the best goods and services at the lowest possible price. This process helps ensure that taxpayer dollars are expended in the most efficient manner.

The Board's procurement policy¹ dictates the procedures that District personnel must follow when procuring goods and services. Among other things, the policy requires that District personnel must evaluate every prospective purchase of goods or services to determine the applicability of competitive bidding laws, and the policy describes the process that District personnel must use to obtain quotations for purchases that are not subject to competitive bidding. For example, when District personnel are making purchases that cost less than \$3,000, but more than \$1,000, they must request oral quotes from two vendors. However, when contracting for public works contracts that cost less than \$10,000, but more than \$3,000, they must solicit a written request for proposal (RFP) from two contractors. The Board's policy requires that District personnel obtain quotes, document them, retain them for applicable purchases and public works contracts, and then file all information gathered during this process with the documentation that supports the purchase or public works contract. In addition, the policy states that "Except when directed by the Board, no solicitation of written proposals or quotations shall be required under the following circumstances: ...c) sole source situations...."

The Board's Internal Claims Auditor policy² requires the District's Internal Claims Auditor to examine all claims for availability of

¹ The District adopted its procurement policy January 11, 1994, and has renewed the policy annually thereafter.

² The District adopted its Appointment and Duties of the Internal Claims Auditor policy on August 9, 1988, and has renewed the policy annually thereafter.

funds, to substantiate receipts, and to ensure that they meet other requirements that are established by regulations of the Commissioner of Education and/or the Comptroller of the State of New York. The Internal Claims Auditor told us that she does not review claims for compliance with bidding laws, or with the District's procurement policy as it relates to obtaining quotes for purchases not required to be bid. The Business Administrator, who also serves as the District's purchasing agent, told us that although District personnel sometimes request quotes from vendors, the staff does not retain written documentation of those quotes.

We examined 23 purchases made during the 2004-05 fiscal year totaling approximately \$200,000, and found that none of these purchases were supported by documentation that showed that they complied with the Board's procurement policy. District personnel either did not obtain quotes, document the quotes, or did not retain the quotes for these purchases and public works contracts. These purchases included \$15,750 for smoke detectors, \$9,525 for sporting goods, \$5,925 for maintenance supplies, and \$4,514 for countertop resurfacing.

Among the recognized exceptions to competitive bidding requirements is the "sole source" rule, where the subject of a contract is controlled by a sole source, so that there is no possibility of competition. In these situations, the empty formality of inviting proposals would not be required. However, whether a particular contract involves a true sole source situation is a factual matter, and District officials must document whether the specific service sought may be obtained from only a single source.

The District paid \$31,150 for the installation of a security system. The Business Administrator said that District personnel did not solicit competitive bids for this public works contract, because after checking into other companies, he determined that this vendor was the only one that could meet the District's needs. However, we found no written evidence in the minutes of the Board's proceedings – or otherwise presented to us by District officials – that documented this procurement as being only available from this one firm.

Because District officials and employees have failed to follow the Board's procurement policy, by not having the required documentation on file concerning the soliciting of competition, the District risks acquiring goods and/or services at higher costs. Due to the lack of such documentation, the Board and other interested parties have no assurance that the procurement process is operating effectively.

Recommendation

1. The Board should ensure that all District employees, who are involved in the procurement and claims approval processes, follow the District's procurement policy and bidding laws. Also, the Board should periodically determine whether District personnel are complying with the procurement policy and applicable laws.

Capital Assets

Capital assets are those assets that have a useful life of more than one year and include such things as land, buildings and building improvements, furnishings, vehicles, and electronic equipment such as computers. The District's inventory of capital assets represents a significant investment of resources. As of June 30, 2005, the District reported approximately \$11.8 million in capital assets of which approximately \$10.2 million was for land, buildings, and improvements other than buildings, and \$1.6 million was for equipment.

District officials must ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively. This can be accomplished by: adopting policies that describe the duties, records, and procedures necessary to help ensure that capital assets are properly accounted for and safeguarded; maintaining perpetual inventory records; conducting periodic inventories; and by establishing other safeguards such as tagging all assets as belonging to the District. Ideally, one person (the property control manager) should have overall responsibility for tracking capital assets, and for the accuracy and usefulness of the records. The person in charge of the records should be independent of the purchasing process and have restricted access to the property/assets. Periodic physical inventories of capital assets should be conducted to help ensure the accuracy and completeness of recorded amounts, and to assist in identifying obsolete assets. The results of these counts should be compared to detailed inventory records and any discrepancies investigated.

The District's capital asset policy requires the Business Administrator to be responsible for accounting for capital assets, and arranging for the annual accounting and appraisal of District property. The policy also calls for the Business Administrator to investigate any discrepancies. In 2003, the District hired an appraisal company to conduct a physical inventory and establish capital asset records. The Business Administrator stated that the appraisal company will return in five years to conduct another physical inventory. During the interim period, the company updates the District's records at the end of each fiscal year based on information that the Business Administrator provides to the company regarding capital asset acquisitions and disposals. The Business Administrator also told us that he is aware of all capital assets and would notice any missing items, and that hiring an appraisal company to do an annual physical inventory would be cost-prohibitive to the District.

We reviewed 18 capital asset purchases, valued at approximately \$158,000, made during the 2004-05 fiscal year, traced them to the inventory records, and attempted to view the actual assets. Of these 18 purchases, 13 purchases valued at approximately \$75,000 were not included in the capital asset records. These items included \$23,000 of computer-related equipment, an electronic piano keyboard and other items used for music instruction valued at \$3,600, a \$2,725 refrigerator, and a \$1,035 tent. We located 17 of the 18 purchases, but we could not identify them by using some method such as recording serial numbers, decaling, or tagging. We could not locate two generators valued at \$1,398. The Business Administrator stated that the District borrowed two generators from employees for a school function and during the course of their use they were destroyed by a storm. The purchase in question was intended to replace these items for the employees. Although the claim for the generators was audited and approved by the Internal Claims Auditor, we did not find Board approval for the transfer of the purchased generators to District employees.

In addition to the appraisal report, two sets of inventory records relating specifically to the District's computer equipment also are maintained by other sources. BOCES maintains a record of the District's computer equipment purchased through BOCES, and the District's computer network administrator maintains a record of the District's computer equipment. The computer network administrator told us that he conducts an annual physical inventory of computer equipment at each school, but does not compare the results to the District's updated appraisal report (capital asset records), or to the past year's inventory records.

The three sets of records maintained for the District's computer equipment all contained different quantities of computers. The District's capital asset records showed that the District had 559 computers; BOCES's records indicated that the District had 740 computers, and the computer network administrator's records showed that the District had 384 computers. We found that more than 300 of the 559 computers listed in the District's capital asset records were manufactured during 2000 and before. The Business Administrator told us that District personnel may not have recorded routine computer dispositions, which might be a contributing factor toward the discrepancies that we found in the records. However, the Business Administrator did not follow the District's capital asset policy by investigating these recorded discrepancies resulting from the annual appraisal of District property, specifically with regard to the District's computer equipment.

Incomplete and outdated information on capital assets can result in the District having inaccurate accounting records, and can cause the

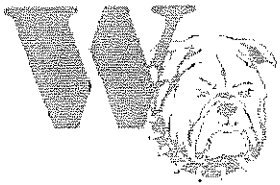
District to incur unnecessary insurance costs. Inaccurate inventory records also can expose the District to possible fraud or theft, which may occur and not be detected. Based on our testing, we do not believe that the District's control procedures over capital assets are operating effectively.

Recommendations

2. The Board should assign the responsibility for accumulating information used to update capital asset records to someone who is independent of the purchasing process, and who has restricted access to the District's property/assets.
3. District officials should ensure that District personnel maintain complete, accurate, and up-to-date capital asset records. Also, District officials should ensure that District personnel (or an outside vendor) take periodic physical inventories, and then staff should compare those inventories to the capital assets inventory records. District officials should then investigate and resolve any discrepancies.
4. District officials should ensure that all District property is identified by some method such as serial numbers, decaling or tagging, which have the name of the District on them.
5. The Board should approve, and then note in the minutes of its proceedings, any transfers of capital assets to District employees or other parties.
6. District officials should ensure that District personnel accurately maintain the District's computer equipment inventory records, and periodically reconcile the District's records to BOCES' records. District officials should then investigate and resolve any discrepancies. District officials also should ensure that District personnel provide sufficiently detailed information (e.g., reason and authorization for disposal, transfer, or sale) when recording the disposal of computer equipment in the capital asset records.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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



Superintendent's Office - (315) 557-2614
High School - (315) 557-2616
Middle School - (315) 557-2618
Elementary School - (315) 557-2626

June 15, 2006

[REDACTED]
Office of the State Comptroller
State Office Bldg., Room 409
333 E. Washington St.
Syracuse, New York 13202

To Whom it May Concern:

The Westmoreland Central School District is in receipt of the Draft Audit Report dated June 1, 2006 outlining the findings and recommendations as a result of the audit of the Westmoreland Central School District by your office staff.

In addition, we met on June 7, 2006, with your audit staff during the exit meeting to review and discuss their findings and recommendations.

After a complete review of the draft report by the Superintendent, the Board of Education and Mr. Walsh, we accept and will correct the items identified to improve the financial and fixed asset accountability of the District.

The following are the corrective actions that will be taken to ensure compliance with identified items and recommendations.

Recommendation #1:

The Board of Education should ensure that all District employees who are involved in the procurement and claims approval process, follow the District's procurement policy and bidding laws.

The Board of Education, Superintendent, and the Business Office will review all regulations and board policies. District policies will be reviewed and updated to ensure compliance with accepted procurement procedures. Business Office staff will review all policies and procedures and incorporate modifications to practices in all procurement procedures.

Recommendation # 2, 3, 4, 5 - Fixed Asset and Computer Inventory control.

The District will be contracting with Industrial Appraisal Company to conduct a complete re-inventory of all fixed assets and computer equipment. This inventory will include the tagging of all items with a permanent label that clearly identifies the item as belonging to Westmoreland Central School District. The District is also reviewing a software program to electronically communicate with Industrial appraisal to maintain a "real time" inventory as equipment purchases are made.

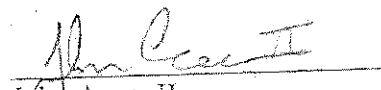
The District has transferred the inventory control to the Senior Account Clerk beginning immediately. As a new item is purchased, a tag will be issued to be placed on the item. The inventory number will be recorded on the purchase order when the item has been checked into the District.

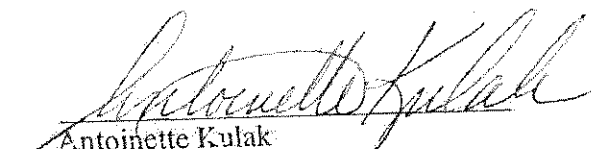
This procedure will also be in place for the purchase of all computers and computer related equipment. The Senior Account Clerk, working in conjunction with the Supervisor of Technology responsible for fixed asset control, will also be responsible for the inventory of computer equipment. The District will maintain one inventory record of all fixed assets owned.

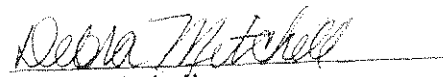
In the event a piece(s) of equipment is transferred to an employee, the transfer will be reviewed by the Board of Education and recorded in the minutes for accountability and future reference. The Districts' policy will be reviewed and modified to reflect this recommended change.

Please contact me if you have any questions or wish to discuss further this response letter.

Sincerely,


John Acee, II
Board of Education President


Antoinette Kulak
Superintendent of Schools


Debra Mitchell
Board Clerk

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by District officials to safeguard District assets. To accomplish this goal, we performed an initial assessment of the District's 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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected internal controls relating to procurement and capital assets for further audit testing.

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

- We interviewed appropriate District officials to obtain an understanding of the organization, the District's accounting system and to identify key personnel.
- We obtained copies of District policies and procedures and evaluated the adequacy of these policies.
- We reviewed the District's electronic data-processing (EDP) system for control weaknesses to determine whether controls over the District's EDP system were lacking or circumvented, and to recommend procedures to strengthen internal controls over computer-generated financial records.
- We reviewed the policies and procedures relating to the manner in which claims are reviewed and approved by the District's Internal Claims Auditor.
- We examined paid claims for compliance with Board policy and bidding laws.
- We examined policies, recordkeeping and other safeguards relating to District capital assets and located capital assets identified in District records.

- We examined the District’s updated appraisal report as of June 30, 2005, which represents the District’s capital asset accounting records.
- We tested selected records and transactions, and examined pertinent documents including cancelled checks.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT SERVICES
AND ECONOMIC DEVELOPMENT

Mark P. Pattison, Deputy Comptroller
Steven J. Hancox, Assistant Comptroller
John Clarkson, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Room 1050
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates
counties

SYRACUSE REGIONAL OFFICE

Debora Wagner, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence counties

BINGHAMTON REGIONAL OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins
counties

GLENS FALLS REGIONAL OFFICE

Karl Smoczynski, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,
Montgomery, Rensselaer, Saratoga, Warren, Washington
counties

ALBANY REGIONAL OFFICE

Christopher J. Ellis, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Schenectady, Ulster, Westchester
counties

HAUPPAUGE REGIONAL OFFICE

Richard J. Rennard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties