



# Brockport Central School District Internal Controls Over Credit Card Purchases

Report of Examination

Period Covered:

July 1, 2005 — January 8, 2007

2007M-63



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

June 2007

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller is mandated to oversee the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Brockport Central School District, entitled Internal Controls Over Credit Card Purchases. 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.

This audit's results and recommendations are resources for district officials in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Brockport Central School District (District) is located in the Towns of Sweden, Clarkson, Hamlin, Ogden and Parma in Monroe County, the Town of Clarendon in Orleans County, and the Town of Bergen in Genesee 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 five schools in operation within the District, with approximately 4,300 students and 1,000 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$59.4 million, funded primarily with State aid, real property taxes and grants.

The District has designated the District Treasurer as the purchasing agent. Under the general supervision of the Superintendent, the purchasing agent is responsible for administering all purchase activities. There were 77 credit cards issued to District employees, and credit card purchases amounted to more than \$83,000 during our audit period.

## Objective

The objective of our audit was to evaluate internal controls over credit card purchases. Our audit addressed the following related question:

- Are internal controls over credit card purchases 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: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. 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 area of credit card purchases and, therefore, we examined internal controls over credit card purchasing of the District for the period July 1, 2005 to January 8, 2007.

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 that 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*.

## Credit Card Purchases

An effective system of internal controls requires the Board to establish a sound credit card policy, which establishes the parameters for using the credit card and procedures for monitoring credit card usage. Although the Board developed and implemented a credit card policy, it did not properly review and monitor credit card purchases.

The District utilizes a purchase order system to control the procurement of goods and services including those acquired using credit cards. To ensure that funds are available for a purchase, a purchase order should be prepared prior to the ordering of the goods or services. In the case of emergencies, confirming purchase orders<sup>1</sup> may be utilized. In those limited instances when District personnel must make an emergency purchase without the use of a purchase order, it is important that District staff indicate that they are using a confirming purchase order, and clearly state the emergency circumstances that justified their need to make a purchase prior to receiving an authorized purchase order.

Claims should contain enough detail and supporting documentation to determine whether the claim represents a lawful and proper District charge.<sup>2</sup> When internal controls are not designed appropriately or operating effectively, it increases the risk that employee errors and irregularities may occur and not be detected and corrected.

The District has 72 store-specific credit cards with 10 vendors located within the District, and five bank credit cards. Two of the vendor cards are unaccounted for. During our audit period District credit card purchases totaled more than \$83,000. We reviewed 746 purchase orders for credit card purchases. We noted that 148 (20 percent) credit card purchase orders totaling \$20,201 were dated after the claim/invoice date and, therefore, were confirming purchase orders. There was no documentation that any of these charges were for emergency purposes. For example, the District purchased various maintenance supplies, costing \$1,334 at a home center on July 28, 2006, where the purchase order was not completed until August 15, 2006. In addition, 25 (3.5 percent) credit card purchases exceeded their purchase orders by a total of about \$4,200. For example, a \$3,370 charge to a bank credit card for hotel and meals charged during the National School Board Conference exceeded the issued purchase order by \$2,467.

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<sup>1</sup> A confirming purchase order occurs when an order is placed with a vendor prior to obtaining purchasing agent authorization, and is confirmed by him after the purchase is made.

<sup>2</sup> Education Law, Section 1724

Furthermore, 43 expenditures (6 percent) totaling \$7,631 did not have receipts attached to the claims. For example, a charge in November 2005 for \$989 from a local vendor for hacksaws, chisels, knives, screwdrivers and other miscellaneous supplies did not include original receipts to support the payment. While the statement itemized the purchases, the actual receipts were not attached or available for review.

The District's internal control procedures relating to credit card purchases were not operating effectively, and could result in errors and irregularities occurring and not being detected. The failure to require original supporting documentation and the ability to circumvent the procurement process and policies could result in credit card claims being approved and paid that were not proper obligations of the District. However, our review did not detect any errors or irregularities.

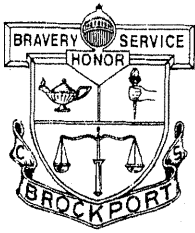
## **Recommendations**

1. The Board should update its policy to include procedures for monitoring credit card usage to ensure that District officials comply with the Board policy.
2. District officials should cancel cards that are not accounted for and consider reducing the number of credit cards that they issue to employees.
3. District officials should require that a purchase order be issued prior to each credit card purchase in an amount sufficient to cover the cost of the goods and services ordered.
4. The Board should require that original supporting receipts be attached to credit card claims.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# BROCKPORT

## Central School District

**Administrative Offices** • 40 Allen Street, Brockport, New York 14420 - 2296 • Fax: (585) 637 - 0165

James C. Fallon  
Superintendent of Schools

(585) 637 - 1810

May 22, 2007

Office of the State Comptroller  
Rochester Regional Office  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, New York 14614

The Brockport Central School Board of Education and Administration have reviewed the draft Comptroller's Audit of the Internal Controls over Credit Card Purchases (period covered July 1, 2005 through January 8, 2007). This letter is intended to present the District's response to the findings outlined in the Comptroller's Audit Report.

### Purchase Cards

During the audit, District officials were made aware of weaknesses in reviewing and monitoring store cards and credit cards. The District agrees with these findings. As soon as we were made aware of the weaknesses, we began to implement a corrective action plan immediately.

### Response to Recommendations

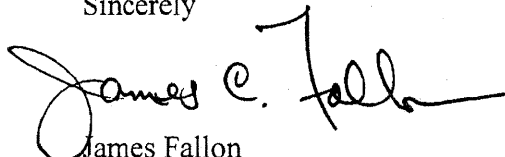
- 1) District officials and the Board of Education developed new procedures to make certain adequate monitoring and compliance with Board policy occurs. The new procedure requires the Internal Claims Auditor prepare a monthly written report for the Board reviewing all card purchases processed for that month. The District has also modified existing Board Policies to accommodate these changes.
  
- 2-4) District officials have cancelled all but three Walmart and three Wegmans store cards. All remaining cards are locked in a safe and must be signed out for use only after the purchasing agent has approved a purchase order with the proper description and amount. The card is then returned and signed in accompanied by an original receipt for payment.

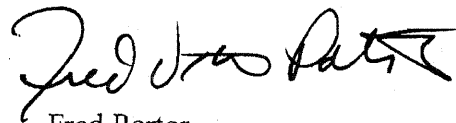
We would like to stress, despite the fact that some purchases did not comply with the District's purchasing policy and procedures, they were lawful and proper District charges. The new procedures implemented will allow the District's purchasing procedures to operate more effectively.

As mentioned in your audit report, your initial assessment included evaluations of cash receipts, cash disbursements, purchasing, payroll, personnel services, capital assets and consumable inventories. It was determined that controls appear to be adequate and limited risk existed in most of the financial areas except the abovementioned concern. Brockport strives to ensure the safe keeping of public funds and to protect the interest of our taxpayers through effective and efficient internal controls.

The District would like to thank the field auditors for their thorough and professional review of our District and their efforts made to minimize the impact on the daily operations of the District. We value your office assessing our operations and welcome the opportunity to use your findings to improve our District.

Sincerely

  
James Fallon  
Superintendent of Schools

  
Fred Porter  
President, Board of Education

## 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: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

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 credit card purchases for further audit testing.

During this audit, we examined the District's policies and procedures relating to the use of credit cards for the period July 1, 2005 to January 8, 2007. To accomplish the objectives of this audit, and to obtain relevant audit evidence, our procedures included the following:

- We conducted interviews with District officers and personnel to gain an understanding of procedures in place and the nature of internal controls.
- We reviewed payments for credit card purchases and supporting documentation made during our audit period including claim vouchers, purchase orders, credit card statements, and the District's credit card policy.

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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