



Germantown Central School District Internal Controls Over Purchasing and Capital Assets

Report of Examination

Period Covered:

July 1, 2004 — June 1, 2006

2007M-24



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

May 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 can also identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Germantown Central School District, entitled Internal Controls Over Purchasing 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.

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 Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Germantown Central School District (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.

The Board designated the Superintendent as the District's purchasing agent on July 14, 2004. The purchasing agent is responsible for administering all purchase activities. The Board adopted its purchasing policy in August 1992, and revised it in March 2005.

Scope and Objective

The objective of our audit was to examine the District's control environment and internal controls over purchasing and capital assets for the period July 1, 2004 to June 1, 2006. In addition, through inquiry of District personnel and observation of District data processes, we obtained an understanding of the design of information technology (IT) controls. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard district assets?
- Are internal controls over capital assets designed and implemented to safeguard district assets?

Audit Results

Although, the District had established internal controls over purchasing practices to safeguard against fraud, abuse and professional misconduct, there were instances where these controls were not operating effectively. We found that the District did not comply with the requirements of General Municipal Law or its procurement policy for four of nine contracts we tested. For example, the District did not competitively bid the purchase of playground equipment costing \$44,902 and a tractor costing \$15,845. As a result, there is no assurance that the District obtained these items at the best price.

When making fuel purchases with District credit cards, employees did not identify the vehicle for which the fuel was purchased. Credit card charge slips did not contain information needed to identify the specific business purpose of the purchase. Because of this deficiency, there is an increased risk that fuel purchases may not be used for official District purposes.

We also found that the District has not developed a formal disaster recovery plan for its computer operations. Without a disaster recovery plan there is a significant likelihood that, in the event of a disaster, critical information systems or data will not be available for District operations.

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 have already initiated corrective action.

Introduction

Background

The Germantown Central School District (District) is located in the Town of Germantown in Columbia 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 three schools in operation within the District, with approximately 715 students attending those schools. The District has a workforce of approximately 99 employees. The District's budgeted expenditures for the 2005 fiscal year were \$11.7 million, funded primarily with State aid, real property taxes and grants.

The President of the Board is the Chief Fiscal Officer of the District. However, many of the District's financial management functions are the responsibility of the Superintendent, the Business Administrator and the District Treasurer. The Board has designated the Superintendent as the District's purchasing agent. The purchasing agent is responsible for administering all purchase activities.

Objective

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

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard district assets?
- Are internal controls over capital assets appropriately designed and implemented to safeguard district assets?

Scope and Methodology

During this audit we examined the District's control environment and internal controls over capital assets and purchasing for the period July 1, 2004 to June 1, 2006. Through inquiry of District personnel and observation of District data processes, we also obtained an understanding of the design of information technology (IT) controls.

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 have already initiated 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

A good system of internal control consists of policies, practices, and procedures that provide reasonable assurance that the District 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 and support for internal controls, and its regular monitoring of controls to make sure they are working effectively. The Board is responsible for designing internal controls that help safeguard the District's assets and ensure the prudent and economical use of District moneys when procuring goods and services and to protect against favoritism, extravagance, fraud and corruption. The objectives of a procurement process are to obtain services, materials, supplies or equipment of the desired quality, specified quantity, and at the lowest price in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most efficient manner.

Although the District has established internal controls to protect against fraud, abuse, and professional misconduct related to the District's purchasing practices, there were instances where the controls were not operating effectively. As a result, purchases were made that did not comply with District policy and statutory requirements.

Competitive Bidding and Quotes

General Municipal Law, Section 104-b, requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. These policies and procedures should contain provisions requiring that such goods and services be purchased based on a written request for proposal (RFP), written quotations or verbal quotations. Policies and procedures should set forth each method of procurement, the procedures for determining which method will be used, and provide for adequate documentation of the actions taken. Accordingly, the District Purchasing Policy was adapted in 1992 and revised in March 2005.

The Board and the purchasing agent are responsible for establishing and implementing the procedures and standard forms for use in all District purchasing and related activities. According to the District's procurement policy, goods and services that are not required by law to be procured through competitive bidding will be procured in a manner as to ensure the prudent and economical use of public

moneys. Proposals or quotations are secured by requests for proposals, written or verbal quotations, or any other appropriate method of procurement.

We selected nine purchase contracts ranging in cost from \$1,044 to \$44,902 and compared these contracts against the District's procurement policy requirements. The District did not comply with the requirements of General Municipal Law or its procurement policy for four of the nine contracts. The District had no documentation showing that it competitively bid the purchase of playground equipment costing \$44,902, and a tractor costing \$15,845. The District also had no evidence that it solicited formal written quotes from at least three vendors for a purchase of \$5,550 for wood benches, or the \$7,000 paid for seal-coating a parking lot.

Without proper adherence to laws and established policies and procedures, the District cannot be sure that they are securing goods and services in the most economical manner and in the best interest of District taxpayers.

Gasoline Purchases

All purchases should be sufficiently documented so that the quality and quantity of items (or services) purchased can be readily determined. The business purpose of the purchase should also be obvious from the documentation provided. These documentation requirements are particularly necessary for purchases of consumable items such as gasoline. Consumable items are often indistinguishable from one another and are used up in a short period of time so that no evidence of the purchase remains other than the documentation.

The District uses credit cards to purchase gasoline/diesel fuel for maintenance vehicles and equipment. Credit card purchases of gasoline/diesel fuel were not adequately documented by District employees. Vehicle fuel purchases, which averaged \$1,285 a year for 2005 and 2006, were not accounted for properly. Credit card charge slips do not indicate which vehicle the fuel was being purchased for so that the District managers can determine whether charges are necessary and proper.

Although the reported dollar amounts for gasoline/diesel fuel purchases were not large, the nature of the items purchased and the lack of adequate record-keeping create a situation where such purchases may be made for non-school purposes and go undetected.

Recommendations

1. The Board and the purchasing agent should adhere to the requirements of General Municipal Law and District policy when procuring goods and services subject to the competitive bidding laws.

2. District officials should monitor and enforce compliance with the District's procurement policy as it relates to the required number and type of quotations required for those purchases that fall below the competitive bidding thresholds.
3. District officials should require that all credit card charge slips for gasoline/diesel contain information identifying the District vehicle that the fuel was purchased for.

Computerized Data

An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by the Board to minimize the loss of essential data. Such policies and procedures should work to protect data from loss from any number of threats or accidents (disasters). This system of internal controls should include a disaster recovery plan.

There should be a formal plan detailing the responsibilities of individuals and the procedures to follow to recover lost data in the event of a disaster. This plan should help minimize business cycle interruption and address the process of returning to normal business functioning as soon as possible.

The District has not developed a formal disaster recovery plan. A disaster recovery plan should describe how the District plans to deal with potential disasters. A disaster is any sudden, catastrophic event (e.g., fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity, data or personnel of the information technology system. A formal plan consists of the precautions taken so that the effects of the disaster will be minimized, and the District will be able to either maintain or quickly resume its mission-critical functions. Typically, disaster recovery planning involves an analysis of threats to business processes and continuity needs. It may also include a significant focus on disaster prevention.

Recommendation

4. District officials should develop a formal disaster recovery plan. This plan should address the range of threats to District's information technology system, including the need to adequately back-up all mission-critical data. The plan should be distributed to all responsible parties, periodically tested, and updated as needed.

Capital Assets

District officials must ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively. To safeguard capital assets, the District should have a comprehensive capital asset policy that describes the Board's objectives for capital assets and the records and procedures required to achieve those objectives. An effective capital assets policy includes a description of the duties of a designated property control manager, guidelines for the maintenance of asset records, provisions for periodic physical inventories, procedures for identifying items as belonging to the District, restrictions on access and/or use of assets, and procedures for disposing of assets.

Capital assets are those that have a useful life of more than one year and include land, buildings, furnishings, vehicles and electronic equipment such as computers. The District's inventory of capital assets represents a significant investment of resources. The District's audited financial statements included capital assets with a reported value of \$15,074,146 at June 30, 2005 of which \$14,798,146 was for land, buildings, improvements other than buildings, and construction in progress and \$276,000 was for equipment.

The District has established a capital asset policy that sets forth some of the responsibilities, records and procedures required to ensure that capital assets are properly accounted for and adequately safeguarded. An essential aspect of a capital asset policy is the appointment of a property control manager. This person is charged with the day-to-day management of the District's capital assets and is responsible for ensuring compliance with established policies and procedures. The District has not identified a property control manager.

Recommendation

5. District officials should designate a property control manager to be responsible for tracking capital assets.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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 goal, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most likely at risk. Our initial assessment included evaluations of the following areas: financial condition, cash receipts and disbursements, purchasing, payroll and personal services, information technology, 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. We also interviewed District personnel and observed District data processes to obtain an understanding of the design of information technology (IT) controls. We used that understanding to help determine the scope of our audit. 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 where the potential risks that fraud, theft and/or professional misconduct could occur. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing and capital assets for further audit testing.

Within the purchasing area, we focused our attention on purchases and disposals of computer and electronic equipment, buildings and grounds machinery and kitchen equipment based on the perceived risk associated with each. In addition, we focused on the approval of purchases, and approval of payment for various types of goods and services acquired. 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 claim processing function and to identify any associated effect of deficiencies found in these controls.

- Vendor Payment History Reports
- Purchase Requisition Forms
- Detail Warrants
- Purchase Orders
- Claim Packages
- Expenditure Ledger Transactions
- Bid Files (including RFPs and supporting documentation)
- Listing of Board Members and Administrators
- Procurement Policy
- Treasurer's Reports
- Minutes of the Proceedings of the Board

We examined the following records and reports in an effort to determine if capital assets and inventories were protected against loss, waste and misuse and to identify the possible effect if they were not adequately safeguarded:

- Property Inventory and Accounting Cost Record
- Detail Warrants
- Financial Statements
- Claim Packages
- School Physical Inventory Numbers
- Budgetary Account Activity Report
- Schedules of Capital Asset Expenditures
- Budget Status Report

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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