



# Eastchester Union Free School District Internal Controls Over Purchasing

## Report of Examination

Period Covered:

July 1, 2006 — December 31, 2007

2008M-55



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**

May 2008

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 oversees 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, in part, 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 Eastchester Union Free School District, entitled Internal Controls Over Purchasing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use 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 Eastchester Union Free School District (District) is located in parts of the Town of Eastchester, Westchester County. 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 five schools in operation within the District with approximately 3,000 students and 700 employees. The District's budgeted expenditures for the 2006-07 and 2007-08 fiscal years were approximately \$57 million and \$61 million respectively, funded primarily with real property taxes, State aid, and grants.

The Board has designated the Accountant as the District's purchasing agent. Under the general supervision of the Assistant Superintendent for Business, the Accountant is responsible for administering the District's purchasing activities. The Board's adopted purchasing policy governs District purchasing and related activities.

## Objective

The objective of our audit was to determine if controls over purchasing were appropriately designed and operating effectively. Our audit addressed the following question:

- Did District officials establish policies and procedures to provide reasonable assurance that purchases were properly initiated, authorized, documented, and complied with law?

## 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 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: 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 purchasing area and, therefore, we examined internal controls over purchasing for the period July 1, 2006 to December 31, 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.

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

General Municipal Law (Law) requires school districts to advertise for bids of purchases in excess of \$10,000 and public work contracts in excess of \$20,000. Purchases that do not meet this dollar threshold and contracts for professional services do not have to be competitively bid. However, the Law requires that school districts, in procuring such goods and services, follow written policies and procedures adopted by the Board. These policies and procedures should require the purchase to be based on District officials' review of request for proposals (RFPs), written quotations or verbal quotations from vendors. Policies and procedures should describe procurement methods, explain when to use each method, and require maintaining adequate documentation of procurement decisions, including written agreements.

We examined the District's purchasing policy and procedures and found that District officials have designed and implemented an effective system of controls over purchasing, except for its newly adopted purchasing policy. We found that purchases were properly initiated, authorized, documented, recorded, audited, and complied with bidding requirements set forth in the Law. We examined a judgmental sample of 362 vendor payments totaling \$2,026,945 from a population of 4,980 vendor payments totaling \$31,327,044 made by the District from July 1, 2006 to December 31, 2007. Our examination included tests to determine if purchase requisitions were authorized, issued and approved prior to expenditures being made, and if purchases were recorded, documented and audited. We also tested purchases to determine if District officials utilized competitive bidding, obtained quotes, and RFPs when required. We found no discrepancies or inconsistencies.

During our audit period, District officials used the District's previous procurement policy, which required the Superintendent or his/her designee and the Board to approve purchases, such as professional services, that were not required to be bid. However, the Board adopted a new policy on November 27, 2007 whose provision for obtaining professional services is contrary to the objective of the Law. The new policy states, "... the purchasing agent will not be required to secure alternative proposals or quotations for professional services and/or consultants." The new policy would permit the purchasing agent to procure professional services for any amount without Board approval and without seeking competition. We believe that the new policy would create a situation whereby professional services could be procured without the Board's knowledge and in a manner that may not be in the best interest of the taxpayers.

## **Recommendation**

1. The Board should adopt a purchasing policy that outlines written procedures for District officials to follow in obtaining professional services that are not required to be bid. These procedures should require the purchase to be based on District officials' review of RFPs or quotations from vendors; describe procurement methods, and explain when to use each method; and require maintaining adequate documentation of procurement decisions, including written agreements.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

EASTCHESTER UNION FREE SCHOOL DISTRICT

580 White Plains Road Eastchester, New York 10709

Mary Ellen Melnyk, CPA

Assistant Superintendent of Business



April 15, 2008

Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Re: Eastchester Union Free School District  
Internal Controls over Purchasing  
Report of Examination  
Period Covered July 1, 2006 - December 31, 2007  
2008M-55

Gentlemen:

I am writing on behalf of the Board of Education of the Eastchester Union Free School District in response to the Report of Examination as received by this district on April 8, 2008.

Earlier, I and representatives of the Board of Education of the school district met with [REDACTED] and [REDACTED] of the Division of Local Government Services and Economic Development, for an exit conference. The Report of Examination was fair and balanced and accurately identified one area of weakness in our internal controls over purchasing.

As suggested, the district has revised the purchasing policy and created written procedures for the district to follow for professional services. This policy will be adopted at the April 29<sup>th</sup> Board of Education meeting.

We found the audit to be most helpful and appreciate the manner in which it was conducted.

Very truly yours,

Mary Ellen Melnyk, CPA  
Assistant Superintendent of Business

MEM/SL

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## 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 database 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 database. Further, we reviewed the District's internal controls and procedures over the computerized financial database 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 review. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing for further audit testing.

Within the purchasing area, we focused on adherence to District policies and procedures, as well as pertinent laws and regulations related to purchasing. We also included examinations of written agreements with professional service providers in our testing. 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:

- Cash Disbursement Records
- Vendor Payment Files
- Bidding Packets
- RFP Files
- Professional Service Provider Contracts
- Board Minutes

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C

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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Steven J. Hancox, Deputy Comptroller  
John C. Traylor, Assistant Comptroller

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