



Fire Island Union Free School District Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2006 — June 30, 2007

2007M-287



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 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 Fire Island Union Free School District, entitled Internal Controls Over Purchasing. 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 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 Fire Island Union Free School District (District) is located in the Towns of Brookhaven and Islip in Suffolk 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 is one school in operation within the District, with approximately 40 students attending Kindergarten through Grade 6 and 25 full-time employees. An additional 43 students in Grades 7-12 attend schools at either of two other school districts.

The District's budgeted expenditures for the 2006-07 fiscal year were \$4.8 million, which were funded primarily with real property taxes, State aid and grants. Total purchases were \$2.2 million during 2006-07 fiscal year, representing 46 percent of the District's expenditures. The Board has retained their responsibility to audit all claims.

Objective

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

- Are internal controls over purchasing 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 decided to concentrate our audit efforts in the area of purchasing and therefore, we examined internal controls in this area for the period July 1, 2006 to June 30, 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**

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Purchasing

The overriding goal of a procurement system is to obtain services and/or materials, supplies and equipment of the desired quality, in the quantity required, at the lowest price that complies with applicable Board and legal requirements. The development and implementation of an effective procurement process helps ensure that taxpayer dollars are expended in the most efficient manner. Additionally, General Municipal Law (Law) requires school districts to advertise for bids for purchases in excess of \$10,000 and public work contracts in excess of \$20,000.

It is the responsibility of the Board and District officials to ensure that a sound internal control structure is in place to safeguard District assets and to ensure that the procurement of goods and services is prudent and economical. The internal controls should consist of preventive controls, which are intended to prevent errors and irregularities from occurring and detective controls, which should help detect errors and irregularities in a timely manner. Board adopted purchasing policies and procedures communicate the Board's intent and provide a framework for personnel in the Business Office to follow that clearly details what can be expected by everyone involved in the process.

An adequately designed purchase order system provides a process that enables District officials to verify that the District requires a proposed purchase and that there is unused budgetary authority for the purchase. Effective controls over purchasing include the consistent use of a purchase order system. The purchase order serves as the source document for vendor payment claims entered into the District's accounting system. A properly functioning purchase order system is effective in controlling expenditures because it ensures that purchases are authorized, pre-approved and that adequate funds are available. Prior to issuing a purchase order, the individual requesting the purchase should submit a purchase requisition form. The purchase requisition form provides accountability via pre-approvals and a level of assurance that items requested are needed.

We found the District has established adequate internal controls over purchasing. Our tests showed these controls are working effectively overall to protect District assets. The District has established adequate policies and procedures that provide guidelines for an effective procurement process. In order to verify compliance with certain purchasing procedures, we tested 14 claim vouchers (of the approximately 800 claim vouchers paid during the 2006-07 year) for

the purchase of goods and services totaling approximately \$157,000. We found that the District complied with provisions of the purchasing policy with regard to the use of requisitions and purchase orders.

Additionally, the District consistently followed the provisions of General Municipal Law and the District's purchasing policy with regard to the solicitation of competition prior to contract awards. We reviewed three of 12 significant contracts in effect during our audit period; a purchase contract (totaling \$56,385) and public work contract (totaling \$107,389) subject to competitive bidding requirements, and a professional services contract (totaling \$10,800) subject to procurement policy requirements.

District officials followed competitive bidding requirements in awarding the purchase contract (school bus purchases) and public work contract (repairs to District buses) to the lowest responsible bidders responding to public advertisements for bids. Furthermore, the professional services contract (accounting services) was awarded after the evaluation of proposals received after the solicitation of requests for proposal for the accounting services, in accordance with requirements of the District's procurement policy. We commend the District for establishing appropriate procurement policies and procedures and then enforcing those policies and procedures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Wendell Chu
Superintendent

January 8, 2008

Mr. Steven J. Hancox
Deputy Comptroller
Office of the State Comptroller
NYS Office Bldg. Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. Hancox:

On behalf of the Board of Education and the administration of the Fire Island Union Free School District, I would like to respond to the draft findings of the audit conducted by your office of the internal controls over purchasing of the Fire Island UFSD. Our response is as follows:

The Board of Education and the administration of the Fire Island Union Free School District are pleased that the comptroller's audit found that the district has adequate internal controls and limited risk in the financial areas you reviewed, that internal controls over purchasing put into operation adequately safeguard the District's assets, and that district policies and procedures regarding procurement were both appropriate and enforced in actual operation.

We wish to thank the state comptroller's staff for their conscientious and careful examination of our financial operations. We remain committed to ensuring the integrity of our financial operations and internal controls.

Sincerely,

A handwritten signature in black ink, appearing to read "Wendell Chu". The signature is fluid and cursive, with a long horizontal stroke at the end.

Wendell Chu

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. 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 objective and scope by selecting for audit that area most at risk. We selected purchasing for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following steps:

- We reviewed current District policies and procedures relevant to purchasing.
- We interviewed key personnel to determine the process for requisitioning goods or services, approvals required, and procedure for locating a vendor.
- We interviewed key personnel to determine the process for authorization of payment to the vendor.
- We examined RFP and bidding documentation to determine whether the procurement of professional services and purchases were made in accordance with Board policy and legal requirements.
- We examined claims for evidence of audit and approval for payment.
- We reviewed pertinent documents including: cancelled checks, bank statements, warrants, cash disbursement journals, bidding packages and various other accounting records and financial reports to determine if cash disbursement transactions were properly initiated, approved and recorded.

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.

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

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