



Letchworth Central School District Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2006 — November 13, 2007

2007M-306



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Letchworth Central 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 Letchworth Central School District (District) is located in the Towns of Castile, Eagle, Gainesville, Genesee Falls, Pike, and Wethersfield in Wyoming County and in the Towns of Centerville and Hume in Allegany 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 is currently one school in operation within the District, with approximately 1,070 students and 220 employees. The District's budgeted expenditures for the 2007-08 fiscal year are approximately \$16 million, which are funded primarily with State aid, real property taxes and grants.

The Board has designated the Business Administrator as the District's purchasing agent. The purchasing agent is responsible for administering the Board's adopted purchasing policy and written procedures.

Objective

The objective of our audit was to examine the internal controls over the purchasing process for the period July 1, 2006 to November 13, 2007. Our audit addressed the following related question:

- Are internal controls over the District's purchasing process designed appropriately 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 purchasing area and, therefore, we examined internal controls over purchasing for the period July 1, 2006 to November 13, 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 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*.

Purchasing

The Board is responsible for designing internal controls that help safeguard the District's assets and ensure the prudent and economical use of its moneys when procuring goods and services. A good system of internal controls over purchasing consists of policies and procedures that allow an organization to provide reasonable assurance that it is using its resources effectively and is complying with applicable laws and regulations. The objectives of a procurement process are to obtain services or materials, supplies, and equipment of the desired quality, in the quantity needed, and at the lowest price, in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most effective manner.

General Municipal Law requires the District to develop standards for the methods of competition to be used and the documentation to be maintained when soliciting non-bid procurements. District purchasing policies and regulations must require adequate documentation of actions taken, particularly if contracts are awarded to a vendor other than the lowest responsible offer. These policies and regulations should contain provisions requiring that such goods and services be purchased based on a written request for proposal (RFP), or written or verbal quotations.

The Board's adopted procurement policy requires three verbal quotations for purchase contracts of amounts over \$1,000 but not over \$5,000, and three written quotations for purchase contracts over \$5,000 but not over \$10,000. In addition, the policy requires three verbal quotations for public works contracts over \$3,000 but not over \$7,000, three written quotations for public works contracts over \$7,000 but not over \$20,000, and three written quotations for the purchase of liability insurance.

With certain exceptions, General Municipal Law requires that purchase contracts exceeding \$10,000 and public works contracts exceeding \$20,000, during a fiscal year, be publicly advertised for bids and be awarded to the lowest responsible bidder. As an alternative to publicly soliciting bids, Districts can purchase goods and services from vendors that have been awarded State contracts. District officials must verify that the vendor is an authorized State contract vendor and that the price the District is charged agrees with the State contract.

We tested 19 claims totaling \$157,214 to determine whether District officials were complying with the Board's adopted procurement policy. We found that nine claims (totaling \$125,160) were paid without evidence that District officials obtained the required verbal or written quotations. These included the purchase of topsoil (\$9,780), athletic field marking supplies (\$4,106), commercial insurance (\$99,530), ice melting material (\$4,120),¹ graphing calculators (\$2,079), radios (\$2,021) an automobile lease (\$1,580), and books (\$1,943). District officials confirmed that they did not seek competitive pricing in accordance with the Board's adopted procurement policy. As a result, the District may not have obtained the desired goods or services at the lowest price.

We also tested five claims totaling \$59,598 that were identified by District officials as purchases from State contracts. Using State contract documents, we found that all five were made from authorized State contract vendors. However, two of the purchases, totaling \$40,593, were not billed to the District at State contract pricing. One vendor overcharged the District \$3,319 for the purchase of a tractor and attachments, while another overcharged the District by a total of \$261. The purchasing agent and superintendent of buildings and grounds did not compare the purchase price of the goods to the State contract documents for accuracy and, therefore, were not aware of these billing discrepancies. After we brought this matter to the District's attention, they obtained confirmation from the vendors that the District will receive credit for these overpayments.

Recommendations

1. The purchasing agent should monitor and enforce compliance with the Board's adopted procurement policy with respect to the required number of quotations for purchases and require documentation to support purchase decisions.
2. Prior to issuing a purchase order for goods and services, the purchasing agent should verify that pricing provided by State contract vendors is in accordance with the terms of the State contract.

¹ This represents two claims for similar items, one for \$1,831 and the other for \$2,289.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Letchworth Central School District

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State of New York
Office of the State Comptroller
Buffalo Regional Office
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February 13, 2008

To Whom It May Concern:


Please consider this letter as our thirty (30) day response letter to the draft audit reviewed at the exit discussion on February 6, 2008.

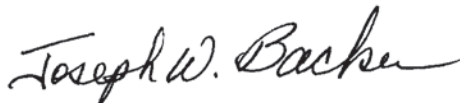
Recommendations:

1. Documented verbal quotes and written quotes are now required to be attached to the request for purchase order, prior to the purchase order being processed.
2. State contract pricing lists are now required from all state contract vendors, as well as the memo showing the base price plus PPI increase issued by the OGS.

If you have any questions, please contact the district at (585)493-5450.

In Education,


Richard Wilcox
Board of Education President


Joseph W. Backer, Ed. D.
Superintendent

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 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 the adherence to District procurement 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 purchasing function and to identify any associated effect of deficiencies found in these controls:

- Vendor Analysis Files
- Claim Packets
- State 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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Steven J. Hancox, Deputy Comptroller
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