



# Shenendehowa Central School District

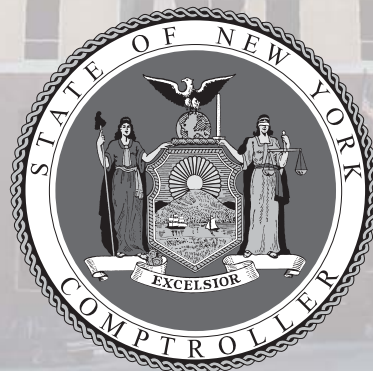
## Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2006 — May 30, 2008

2008M-207



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials	4
<b>INTERNAL CONTROLS OVER PURCHASING</b>	5
<b>APPENDIX A</b> Response From District Officials	7
<b>APPENDIX B</b> Audit Methodology and Standards	9
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	10
<b>APPENDIX D</b> Local Regional Office Listing	11

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 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 Shenendehowa 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 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 Shenendehowa Central School District (District) is located in the Towns of Clifton Park, Halfmoon, Ballston, Malta, Stillwater, and Waterford in Saratoga 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 13 schools in operation within the District, with approximately 9,760 students and 2,100 employees. The District's budgeted expenditures for the 2008-09 fiscal year were \$146 million, which were funded primarily with State aid, real property taxes, and grants.

The District uses networked software to initiate and process purchasing transactions. The Board appointed a purchasing agent (the purchasing coordinator) who is responsible for approving all purchases. The purchasing coordinator reports to the Chief Financial Officer, who is also the District Clerk.

## Objective

The objective of our audit was to evaluate internal controls over the District's purchasing operations. Our audit addressed the following related question:

- Are internal controls over purchasing appropriately designed and operating effectively?

## 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, payroll and personal services, and information technology. 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 May 30, 2008.

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 is 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.

## Internal Controls Over Purchasing

An effective system of internal controls consists of policies, practices, and procedures that provide reasonable assurance that the District is using its resources effectively and that it is complying with applicable laws and regulations. It is the responsibility of the Board 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. Internal controls should consist of preventative controls, which are intended to prevent errors and irregularities from occurring, and detective controls, which are intended to help detect errors and irregularities in a timely manner. 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 and to ensure that taxpayer dollars are expended in the most efficient manner.

We found that the District's internal controls over purchasing had been adequately designed and were operating effectively. The District's purchasing process uses networked software to electronically initiate and process purchasing transactions. In order to make a purchase, an employee submits a requisition to their immediate supervisor for approval. The approved requisition is then transmitted to the purchasing agent for approval. Upon approval of the requisition by the purchasing agent, a purchase order is generated. The District's purchase manual requires purchase orders for ordering supplies or budgeted items, repairs, and travel expenses if prior approval has been given. A purchase order is not required for employee reimbursements and certain services such as sports officiating and chaperoning. When no purchase order is required, the District has implemented a procedure in which a claim form is used to process the purchase. The employee's supervisor and the Chief Financial Officer must approve this form prior to payment.

We examined 206 purchases made throughout our audit period, totaling \$5,443,330, to determine whether they were made in accordance with the District's purchasing policy, that required purchase orders were adequately approved and initiated by the submission of a requisition form, and that all purchases were made for appropriate District purposes.

All the purchases we tested were legitimate District expenditures. When examining purchases made during the 2006-07 fiscal year, we found that 36 of 100 purchases tested, totaling \$3,115,577, lacked a

purchase order as required by the District's purchasing manual. While examining purchases made during the 2007-08 fiscal year, we found that only 14 of 106 purchases, totaling \$11,108, lacked the requisite purchase order. However, during both years we also noted that the claims auditor during this period routinely audited and approved the payment of vendor claims for such purchases.

During the 2007-08 fiscal year, the District's new Chief Financial Officer revised the purchasing manual and strengthened the existing controls over purchasing. For example, the Board appointed a new claims auditor, and has been involved in clearly defining the duties and responsibilities of the position, and the related reporting mechanisms to the Board. District officials also conducted in-service training to communicate the purchasing procedures to staff.

Strengthening of the District's internal control structure over the purchasing process during the 2007-08 fiscal year has had a positive impact resulting in increased compliance with the District's policies and procedures. We encourage District officials to continue to monitor their business processes to help ensure that adequate internal controls are in place and, if necessary, to see that corrective action is promptly taken to address any identified deficiencies.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

November 24, 2008

**DISTRICT'S RESPONSE TO COMPTROLLER'S AUDIT**

The Shenendehowa Central School District is committed to maintaining a sound financial base to support and expand high quality instructional programs using a comprehensive budget process that maximizes the use of available resources.

Over the past several years, the district has made a concerted effort to formalize and document numerous processes and protocols to achieve a high level of accountability for fiscal resources. Particular attention was paid to the purchasing process and the strengthening of internal controls. To that end, various policies were carefully reviewed and revised and several new policies were instituted.

A Claims Auditor was hired to further ensure the legitimacy and appropriate accountability of expenditures. It has resulted in a more objective analysis of procedures for purchasing and payment of bills, as well as clarifying procedures regarding employee travel, conferences, meals, and other expenditures. In addition, the District appointed an Internal Auditor to annually review the District's Risk Assessment as well as to audit specific functions in detail. Audits have been completed on the disbursement function as well as the payroll function.

These auditors, coupled with the careful scrutiny by the Audit Committee as required by the Comptroller's Five Point Plan, has truly served to bolster the overall system of checks and balances. In order to ensure a thorough understanding of the new and/or revised policies, protocols, processes, and expectations; the district provided training to all administrators, support staff and business office personnel throughout the year.

Efforts were completed to make the account coding structure more transparent, allowing for a longitudinal analysis of expenditures. Most importantly, the new coding structure also allows for a more detailed analysis of expenditures and better forecasting of needs.

While these steps have undoubtedly improved the district's purchasing process and leads to more consistent practices, the district will continue to monitor this as well as other financial processes to maximize efficiency and internal control. Training of staff will continue as part of an on-going plan. The district will also continue to seek feedback from each of the audit functions on a regular basis throughout the year.

From formal policies to administrative procedures, there is a commitment to routinely monitor the effectiveness of what we do to be sure that our decisions and actions support our dedication to excellence in all things and foster a safe learning environment. Through the use of the auditing functions, we will continue to look at ways to improve processes and procedures to ensure fiscal responsibility and accountability for the investments of the Shenendehowa Central School District.

Sincerely,



Dr. L. Oliver Robinson  
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, payroll and personal services, and information technology.

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 on the reported objective and scope by selecting for audit those areas most at risk. We selected the purchasing process for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We reviewed policies, procedures, and records pertaining to purchasing.
- We interviewed District personnel and evaluated internal controls and safeguards over purchasing.
- We reviewed and tested 206 claims to determine if purchase orders are initiated by the submission of a requisition form, purchase orders are approved before purchases are made, and purchases being made are for appropriate District purposes. The documentation examined included purchase orders, invoices, contracts, receiving slips, and payment approval documentation including that maintained by the claims auditor.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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