



Berlin Central School District

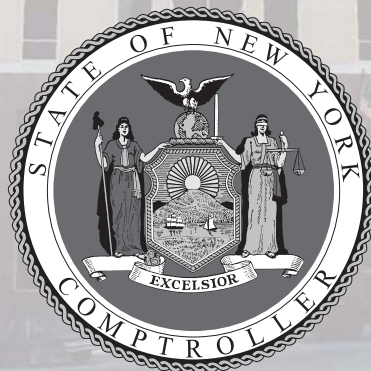
Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2008 — April 30, 2010

2010M-117



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2010

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 Berlin 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 Berlin School District (District) is located in the Towns of Berlin, Grafton, Petersburg, Poestenkill and Stephentown, in Rensselaer 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 currently three buildings¹ in operation within the District, with approximately 890 students and 205 employees. The District's budgeted expenditures for the 2009-10 fiscal year were approximately \$18 million, which were funded primarily with State aid, real property taxes, and grants.

The District uses networked software for the processing of purchase orders. The Board adopted a procurement policy which provides guidance for purchasing goods and services. The Business Manager serves as the purchasing agent and is responsible for implementing the District's procurement policy and ensuring that all District purchases are made in accordance with the policy and pertinent laws.

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 the purchase of goods and services 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, 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

¹ Grafton Elementary, Berlin Elementary and the Berlin High/Middle School

in the purchasing area and, therefore, we examined internal controls over purchasing for the period July 1, 2008 to April 30, 2010. We found that the District's controls over purchasing were effective.

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 and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

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. 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.

District officials have established comprehensive purchasing policies and procedures that provide guidance as to when items must be competitively bid by law and when quotes should be obtained for purchases not required to be competitively bid. While reviewing the internal controls over purchasing, we determined that the process in place is as follows:

- All purchases made require an approved purchase order. District officials use networked software for the processing of purchase orders. District employees are required to submit requisitions to the appropriate administrator for building-level approval.
- The respective administrator forwards the approved requisition to the Assistant Treasurer for review who then forwards it to the purchasing agent.²
- The purchasing agent reviews and approves the requisition which then goes back to the Assistant Treasurer.
- The Assistant Treasurer produces the purchase order and returns it to the purchasing agent for approval, who returns it to the Assistant Treasurer once it is approved.
- Upon approval of the purchase order, the Assistant Treasurer keeps a copy, sends one to the vendor and one to the building secretary.

² The Business Manager is currently functioning as the acting purchasing agent.

- The building secretary verifies the goods received are in proper condition and quantity using his or her copy of the purchase order.
- The respective building secretaries forward the approved purchase order and the receipt/packing list to the Business Office for payment of the invoice, upon receipt of the goods or services.

We examined 40 claims, totaling \$230,442, for purchases made throughout our audit period. We reviewed these purchases to determine whether purchase orders were properly initiated by the submission of a requisition form, purchase orders were approved before the purchases were made, there was adequate verification that the goods and services were received, and the claims were properly audited by the District's claims auditor before payment. We reviewed applicable purchases to determine whether they were competitively bid or quotes were appropriately obtained. We also examined the selected purchases to determine if they were reasonable and were for proper District purposes. Except for minor deficiencies, which we discussed with District officials, we determined that the District's internal controls over purchasing were effective.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Berlin Central

School District

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September 16, 2010

Glens Falls Regional Office
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396



Ladies & Gentlemen:

The Berlin Central School District Board of Education is in receipt of the preliminary draft findings and recommendations of the examination of the Internal Controls Over Purchasing Audit which was completed in the Fall of 2010 in our school district by the Office of the Comptroller, Glens Falls Regional Office.

The report states that except for minor deficiencies, the District's internal controls over purchasing were effective during July 1, 2008 – April 30, 2010, the period examined. Oral comments given during the exit interview indicated that the minor deficiencies found during the field work portion of the audit were corrected immediately. The areas brought to the attention of the Administration during the audit are as follows with the corrective measures taken to insure proper procedures for the future.

[REDACTED]

It was discovered that the Treasurer had Administrative access to the financial software package. This has been corrected; Administrative access now requires the computer network specialist to make changes in the program.

The District did not have a Board approved standard work day set for each title on record, this was corrected with Board action taken at the July 2010 Re-Organization Meeting. Minor corrections were submitted to the State Employees Retirement System to insure the correct amount of credit is given to all employees of the district based on the appropriate work day.

The district was fortunate to have been able to work with the Comptrollers Office in this capacity to insure the trust of the community and stakeholders of the district are strengthened through proper oversight of district funds.

Sincerely,

John Greene

Berlin Central School District Board of Education

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 on the reported objective and scope by selecting for audit an area to verify that controls in place were operating as intended. We selected purchasing 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 40 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.

We conducted our 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.

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