



KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT PURCHASING & ACCOUNTS PAYABLE INTERNAL AUDIT

Date: August 20, 2014

To: Marjorie Schiff, Board President

From: David E. Moran, Director of Education Practice

Cc: Audit Committee
Michael Jumper, Assistant Superintendent for Business
John A. Goetz, Interim Superintendent of Schools

Subject: Purchasing & Accounts Payable Internal Audit

Background

We have applied certain financial, compliance and operational audit procedures to the Purchasing & Accounts Payable functional areas of the Katonah-Lewisboro Union Free School District (the “District”) as of June 30th, 2014. As a result of our most recent Risk Assessment Report, Internal Audit recommended this area for an in-depth review to determine ways to improve procedures, and establish increased accountability and stronger internal controls.

Audit Scope

Our responsibility was to assess the adequacy and effectiveness of internal controls over Accounts Payable and Purchasing operations in the District. We reviewed the period from July 1st, 2013 through June 30th, 2014. A detailed description of audit work performed is presented in the “Summary of Audit Procedures Performed” section of this report. These audit procedures performed are in accordance with *The International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

Executive Summary

As a result of the work performed, we noted the following observations that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. Recommendations were made to:

1. Continue to utilize and comply with the District’s established procedures for the competitive bid process.
2. Continue to utilize and comply with the District’s established procedures for the accounts payable and cash disbursement processes.
3. Continue to utilize and comply with the District’s established procedures for Travel & Entertainment (“T&E”) employee expense reimbursement.



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4. Continue to utilize and comply with the District's established procedures for Claims Auditing.
5. The District should modify its new vendor form whereby the Purchasing Agent and the School Business Administrator indicate their approval and set up of the new vendor in the District's financial management system.

Based on the results of the operational procedures audit performed, the internal control structure is rated as "**Satisfactory**". The internal audit rating structure is defined below:

Satisfactory Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings indicate modest weaknesses that require management's attention.

Needs Improvement Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent further deterioration and possible losses.

Unsatisfactory Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the institution.

We would like to thank the management and staff of the District for the assistance and courtesy extended to us during the course of our audit.

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Summary of Audit Procedures Performed

- Procedure 1 – Reviewed the District’s Board Policies and Department level Purchasing and Accounts Payable policies and procedures.
- Procedure 2- Interviewed District management and staff: Assistant Superintendent for Business, District Treasurer, Purchasing Agent, Deputy Purchasing Agent, Accounts Payable Clerk, Bookkeeper and the Claims Auditor.
- Procedure 3- Reviewed and tested a sample of 3 competitive bids.
- Procedure 4- Reviewed and tested a sample of 15 new vendors.
- Procedure 5- Reviewed and tested a sample of 15 T&E Employee expense reimbursements totaling \$2,222.
- Procedure 6- Reviewed and tested a sample of 25 cash disbursements totaling \$151,152.
- Procedure 7- Reviewed and tested a sample of 5 Accounts Payable Warrants.

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**Recommendations to Enhance the System Of
Internal Controls and Improve Operating Procedures**

1. Purchasing

Observation

Internal Audit tested the competitive bid process. We reviewed the bid files to ensure they were conducted in compliance with District Purchasing Policies and General Municipal Law (“GML”). Specifically, we reviewed bid files to ensure that bid proposals had an adequate level of detail and specificity; advertisement for bids were formally and legally published; sealed bids were appropriately time stamped, processed and opened; bid analyses and bid award determinations were appropriate and sufficiently documented; and the bid recommendations to award the bids were Board approved. In our review, we found no significant deficiencies.

Risk/Opportunity

School districts are required by state law to request bids for goods and services, when the expenditure exceeds the dollar amounts established by GML. Obtaining bids for goods and services helps to encourage competition and getting the best price in the purchase of goods and services that are paid from public funds. Competitive purchasing policies and procedures are essential internal controls that help to ensure all recognized and responsible vendors are given equal opportunity to provide the districts services and supplies, prevent favoritism of one vendor over another, keep districts’ residents informed of the purchasing function, and help to prevent error, abuse, and fraud. Specifically, date and time stamping of the sealed bids provides evidence that sealed bids were received by the districts up until the bid open time. This ensures that no one vendor is given preferential time and opportunity to develop their bid offer. In addition, to ensure appropriate preparation and execution of competitive bids, a bid and RFP Calendar should be established to ensure that all expenditures are procured in compliance with bidding requirements. In general, the Purchasing Agent should work with department heads to create the calendar, assess department needs, and help determine if services should go out to bid or RFP on an annual basis. The District has incorporated these best practices into their policies and procedures.

Recommendation:

Continue to utilize and comply with the District’s established procedures for the competitive bid process.

No Management’s Response Required

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2. Accounts Payable

Observation

Internal Audit reviewed and tested internal controls over cash disbursements for the O&M Department contracted services claims. Internal Audit reviewed the claims to ensure that the claim for payment was appropriately authorized and approved; adequate documentation supported the claim; services were independently verified; the claim reconciled to contract terms; and the claim was processed in a timely manner. In our review, we found no significant deficiencies.

Risk/Opportunity

Good internal controls over the accounts payable and cash disbursement process helps to ensure that actual expenditures are in line with a district's budget, and helps to prevent fraud and misappropriation of districts' assets. In general, all expenditures should be supported with adequate documentation and sufficient itemization to ensure that goods were received, services were rendered, and validate that the nature of the expense was an appropriate school district expense.

In general, the use of confirming purchase orders "POs" circumvents the normal controls provided by the purchase requisition system and increases risk for error and abuse. The routine use of confirming POs as a purchasing mechanism increases the risk of over-expending budgetary appropriations, making untimely budget transfers, and making unnecessary or inappropriate purchases. Although Board Policy can allow for the use of confirming POs, they should be limited to urgent needs and emergencies.

Purchase order descriptions should not read "Open P.O." or "Blanket P.O.," without any further description or explanation as to the purpose and nature of the expenditure. This further complicates the Purchasing Agent's ability to determine the items procured. The Purchasing Agent should require specific and detailed information on Purchase Requisitions, to facilitate the review of expenditures by Purchase Order and Vendor, and to facilitate the review of claims against agreed upon terms.

Recommendation:

Continue to utilize and comply with the District's established procedures for the accounts payable and cash disbursement processes.

No Management's Response required

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3. *Travel & Expense (“T&E”) Employee Reimbursements*

Observation

Internal Audit reviewed and tested the internal controls over the Travel & Entertainment (“T&E”) employee expense reimbursement process. Specifically, we reviewed the employee claims for reimbursements to ensure they were appropriately approved and processed; and were in compliance with applicable District policies and procedures. In our review, we found no significant deficiencies.

Risk/Opportunity

T&E expense reimbursements usually require a greater level of scrutiny and review to ensure that the associated travel, conference, related expenses, and other miscellaneous expenses are “actual and necessary” and therefore eligible for reimbursement according to GML. In addition, T&E reimbursements should be reviewed to ensure that reimbursement or expenditures claims are not circumventing already established purchase requisition procedures. All T&E reimbursements should be appropriately approved, sufficiently supported by documentation, and in compliance with Board policies and applicable rules and regulations. Districts should have formally documented procedures specifying the type of expenditures eligible for employee reimbursement, the form and instructions for submitting claims for reimbursement, and the supporting documentation required to approve T&E reimbursements. In addition, best practice dictates T&E reimbursements should be submitted through the purchase order process.

Claims for employees’ T&E expense reimbursements should provide adequate supporting documentation to validate the type, amount, and nature of the expense. Itemized meal receipts should be attached to ensure Districts do not reimburse expenses for alcohol or sales tax. Direct supervisory approval of employee T&E expenses and claims should be documented to ensure proper management oversight. In addition, modifications to T&E requests, such as extensions of travel or additional expenses not originally submitted for approval, should be approved by Management; and procedures for re-submitting the modifications to prior approved expenses should be established. The District should ensure the changes constitute a legitimate District expense, and are not changes for personal reasons.

Recommendation:

Continue to utilize and comply with the District’s established procedures for Travel & Entertainment (“T&E”) employee expense reimbursement.

No Management’s Response required

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4. Internal Claims Auditing

Observation

Internal Audit reviewed the internal controls in place over the claims audit process. We reviewed policies and procedures to ensure that the Claims Auditor does not have incompatible duties; directly and periodically reports to the Board; and follows adequate and appropriate procedures while performing the claims audit. In our review, we found no significant control deficiencies. We also noted that the Claims Auditor's approval process incorporates two control reviews, prior to and after, the printing of the District's checks.

Risk/Opportunity

By auditing, allowing, or rejecting claims in the warrant, the claims audit function serves as an added internal control over the purchasing and accounts payable processes. By law, the Board is responsible for the audit of claims. Most school districts delegate the responsibility to a Claims Auditor. The Board appoints a Claims Auditor to act on the Board's behalf, and the Claims Auditor should report directly to the Board, provide periodic audit reports to the Board, and discuss any problems so that they may be addressed and resolved within the powers and duties of the Board.

In general, the Claims Auditor is responsible for ensuring that only valid and legal claims against the District are paid. The Claims Auditor should ensure that proper documentation and itemization are provided to support the expenditure, the payment is for an actual and necessary school district expense, and the expenditure was properly authorized and approved. In addition, the Claims Auditor should ensure the claim meets the competitive bidding requirements of GML and that of the District's Purchasing Policy.

The Claims Auditor should adequately document his/her audit of the claims to evidence that all claims were audited prior to payment. The Claims Auditor should also mark or initial the line item/check number on the corresponding warrant. This would provide evidence that the audit of claims was completed for all claims and checks to be disbursed, listed on that particular warrant.

The Board should ensure that the criteria for auditing claims includes reviewing the claim to ensure that it meets General Municipal Law's legal competitive bidding requirements and the District's purchasing policy, as recommended in the New York State Office of the Comptroller Brochure "Improving the Effectiveness of Your Claims Auditing Process." To do so, the Claims Auditor should reconcile claims to contracts and written quotes and bids.

Recommendation:

Continue to utilize and comply with the District's established procedures for Claims Auditing.

No Management's Response required

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5. New Vendors

Observation

Internal audit reviewed and tested the internal controls over the addition of new vendors for the District. Specifically we reviewed the documentation and process by which the vendors were approved and then formally added to the District's financial management and accounting system. In our review, we found no significant deficiencies. We did note that a new vendor form is prepared prior to the vendor set-up in the accounting system. Although the new vendor form indicates that the form was approved by the purchasing agent, it would be a stronger control if the purchasing agent or the assistant who sometimes enters the data into the accounting system, signed or initialed that they have completed the tasks.

Risk/Opportunity

School districts regularly seek new vendors to provide additional sources of supplies and services. In so doing, this practice permits more choices and opportunities for better prices for services and supplies for the district. Best practices indicate that districts should always require not only a W-9 form with the proper tax number identification, but also an address that contains a street address and not just a PO Box number. Also, in the case of service providers, a copy of the Certificate of Insurance in accordance with the District's policy must be provided.

When a new vendor is selected by the district, the controls surrounding the set up of the new vendor should contain multiple reviews. The School Business Administrator, in conjunction with other individuals/departments who have recommended the new vendor, determines if the vendor meets the district's criteria. The purchasing agent should then obtain the approval of the School Business Administrator before entering the vendor into the system. The combination of documentation reviews, references if appropriate, and sign offs by both the purchasing manager and purchasing agent should ensure that new vendors meet the districts criteria to become a legitimate source of services and/or goods for the district.

Recommendation

The District should modify its new vendor form whereby the Purchasing Agent and the School Business Administrator indicate their approval and set up of the new vendor in the District's financial management system.

***Management's Response:* The Katonah Lewisboro School District agrees with the recommendation of the Internal Auditor and we will add an approval step as suggested.**

***Responsible Individual(s):* Assistant Superintendent for Business, School Business Administrator and Purchasing Agent**

***Target Date:* Immediately**