



Plainview-Old Bethpage Central School District

Report on Accounts Payable / Claims Audit Function

March 2013

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The Board of Education
Plainview-Old Bethpage Central School District
Plainview, NY

Board of Education:

We have been retained to function as the internal auditor for the Plainview-Old Bethpage Central School District (hereinafter, "the District"). Our responsibility is to assess the internal control system in place for the accounting function within the District, and to make recommendations to improve upon certain control weaknesses or deficiencies. In doing so, we hope to provide assurance to the Board, the District's management, and residents, that the fiscal operations of the District are being handled appropriately and effectively.

BACKGROUND

As part of the initial risk assessment performed at the District in November 2012, we noted that a review of the accounts payable process /claims audit function would be recommended to ensure that internal controls are functioning properly and are mitigating any inherent risks associated with cash and claims processing. In conjunction with our internal audit responsibility, we have performed tests of controls on this area within the District. To do this, we randomly selected a sample of cash disbursement transactions that occurred in the current school year to determine whether the transactions were valid, in conformity with the documented policies and procedures of the District, and that the internal controls related to cash disbursements are sufficient and effective. Our procedures also included tests of wire transfers and budget transfers.

SCOPE and TESTING

To test cash disbursements, we randomly selected 45 disbursements from July 1, 2012 through November 30, 2012. Our sample consisted of 20 disbursements from the General Fund; 4 from the School Lunch Fund, 9 from the Federal Fund, 7 from the Capital Fund, and 5 wire transfers. Checks from other District funds were not selected as they represent a small percentage of the total claims processed. To test the budget transfer process, we randomly selected 15 budget transfers that occurred July 1, 2012 through November 30, 2012.

For each of the selected transactions, we examined the corresponding claim packets and performed procedures to determine if the invoices and purchase orders were processed in accordance with General Municipal and Education Laws, as well as the current District purchasing policy. We verified that the necessary support documentation was attached to the claim packet, and adequately supported the validity and accuracy of the claim. This included verifying that the claim had been approved by the Claims Auditor. In addition, we examined the bids and quotes for any purchases that were in excess of the required amounts and contracts where applicable.

Finally, we examined the cancelled checks to verify the proper amount, payee, treasurer signature and endorsement. In addition, we examined the monthly reports to the Board as prepared by the Claims Auditor to determine that all checks were accounted for, the correct check numbers were listed in the correct month, and that all issues were properly reflected in the reports.

Based on our interviews, observations, and testing performed, the District has established effective internal controls over the accounts payable processes and the claims auditor function. The tests performed resulted in minimal findings, indicating that the internal control structure within the District for cash disbursements is functioning adequately. In addition, the necessary segregation of duties is in place to ensure that risks related to cash disbursements are minimized. Implementing our proposed recommendations will help to ensure that the accounts payable and claims audit functions continues to operate effectively and that errors do not go undetected. The results of our review are detailed below:

A. Purchasing Policies & Guidelines

Districts are required to use an encumbrance process to ensure that funds are available for purchases. The purchase order serves as a control within the purchasing function to ensure all purchases made by the District are pre-approved. In a school district environment, the purchase order also functions as the initial document in the budget encumbrance process. The District has detailed policies for the purchasing and payment functions. The guidelines are designed to assist the staff involved in these tasks, and to provide them with the requirements for these tasks. Encumbering funds requires purchase orders, contracts, and other commitments for expenditures to be recorded in order to reserve applicable appropriations, and it helps prevent school districts from incurring liabilities in excess of approved appropriations. The availability of funds should be determined before approval of a purchase order for goods or services. The accounts payable functions include verifying that adequate supporting documentation (such as a signed receiving slip and original invoice) are attached to the payment request. A properly functioning purchase order and accounts payable system is effective in controlling expenditures because it confirms that the District authorizes the procurement and that unencumbered appropriations are available for the purchase.

Issue 1: The District's policy #5421: Procurement of Goods and Services, does not include guidelines for the Accounts Payable clerk to obtain approval for payment from business management if an invoice amount exceeds the original purchase order. Based on our discussions, we were informed that the Accounts Payable Department will not process an invoice if the difference is due to an increase in price or quantity without approval from business management, however, they will increase the purchase order if shipping costs were included by the vendor but not reflected on the purchase order (this generally does not happen often and the amount of the increase is usually nominal). It should be noted that our testing of 45 cash

disbursements did not result in any occurrences of the purchase order being increased after the invoice was received.

Priority: Moderate

Risk: Invoices requiring changes to purchase orders could be processed without management review and authorization.

Recommendation: We recommend that the District establish a threshold criterion for requiring authorization for increasing purchase orders. The threshold can be a specific dollar amount of the increase, a percentage of the total invoice amount, or both.

District's Response: *The Business Office agrees with this recommendation and will issue a guidance memo to Accounts Payable providing a specific dollar amount threshold required to increase a purchase order.*

Issue 2: The District's policy #2320: Attendance at Conferences, Conventions, and Workshops states that employees will be reimbursed up to \$100 per day for meals incurred during travel. This policy does not promote that employees should exercise due care while incurring travel expenses.

Priority: Moderate

Risk: Meal reimbursement expenses may not be effectively controlled.

Recommendation: A detailed travel and conference policy is the foundation for establishing effective control over travel and conference expenses. We recommend that the District revise policy #2320: Attendance at Conferences, Conventions, and Workshops to establish reimbursements for specific dollar limits by meal, and to include a statement communicating that travel expenses are paid with public funds and that travel expenses should be reasonable.

District's Response: *The Business Office agrees with this recommendation to revise Policy #2320. We will recommend to the Board of Education to revise Policy #2320 to have specific dollar amount limit for meals and to include a statement that all travel expenses should be reasonable.*

B. Review of Accounts Payable Function

Invoices are processed for payment by the Accounts Payable Department once a signed posting and receiving copy is received. The invoices and supporting documentation are matched against the purchase order to ensure that they are accurate before the claim is processed. If

there is an issue with the invoice, the department requests further information to support the payment for the claim. The accounts payable clerks then prepare the payment and attach the check with all supporting documentation as a claims packet for review by the District's claims auditor. To ensure that invoices are not paid twice, they are stamped "paid." In general, the internal control processes performed by the accounts payable clerks appear to be adequate to ensure that correct and appropriate payments are made. We recommend the following to improve internal control processes within the accounts payable area.

Issue 3: During our review of 45 cash disbursements, we noted that a running balance total kept for expenditures made on blanket purchase orders from Building and Grounds are not being maintained (we did note that running balance totals were being maintained by the Pupil Personnel Services department) . Although the accounts payable clerks verify that there are enough funds encumbered before the invoice is paid, it is important for the purchaser to confirm that funds are available before the purchase is made.

Priority: Moderate

Risk: Goods and services may be purchased from blanket purchase orders that do not have enough funds encumbered.

Recommendation: We recommend that a running total be kept for all goods and services purchased on blanket purchase orders for Buildings and Grounds expenditures. This will allow both departments to be aware that there are enough funds remaining on the purchase order to encumber the new purchase.

District's Response: *The Business Office agrees with this recommendation that all blanket purchase orders have a running total maintained by the department. We also recognize that it is good practice on a district-wide basis to have a minimal amount of blanket purchase orders. We will issue a guidance memo to all departments who are allowed to have blanket purchase orders that in order for this practice to continue, they must provide running totals. This will prevent something being ordered on a blanket purchase order without the proper balance.*

Auditor's Comment: During our discussions with the claims auditor, it was mentioned that on occasion, claim packets will not have packing slips attached (although all have an invoice attached that was approved by the purchaser). As the packing slip generally provides greater detail of the items purchased, the review and approval helps to provide evidence that the purchaser ensured that all goods were received, acknowledged, and accounted for. The packing slip in conjunction with the invoice helps to substantiate the purchase and the request for payment. The District should encourage all departments to submit the packing slips along with the invoices to the Business office for inclusion in the claims packet.

C. Review of Claim Auditor Function

The claims auditor is responsible for reviewing the claims packet to ensure that each invoice is a valid claim to the District. This entails confirming the accuracy of all computations including verification of rates and discounts, ensuring that the payment is an appropriate expenditure and is in compliance with laws, District policies, contracts, bids, and resolutions, and that items have been received or services have been rendered.

Auditor's Comment: During our testing of 45 cash disbursements, we noted 4 instances where the invoice was held more than 90 days prior to payment. We recognize that invoices often come from different departments within the District and understand that sometimes invoices are lost or misplaced or there may be problems with the products purchased which may require the District to hold payments. Delaying payments may affect the District's relationship with vendors and may result in higher prices charged to the District. The District may want to consider having the claims auditor track those payments that are over 90 days to determine if there is a systemic problem that warrants further investigation (i.e., if the department reviewing and approving invoices is being done in a timely manner, or if there is an issue with the a particular product or service from a vendor).

The claims auditor also performs several other quality assurance functions in addition to the claims audit responsibilities. Specifically, the claims auditor performs certain reviews of the payroll process (such as annual review of paycheck distribution, and review of employee timesheets), fixed assets (including a periodic audit of fixed assets), and employee cell phone usage (such as reviewing cell phone invoices and investigating usage for personal call). At the end of each month, the claims auditor prepares a memo to the Board of Education stating the warrants reviewed and listing any issues encountered during her review of the claims, as well as any issues that arose as a result of the other functions performed. In general, the functions performed by the claims auditor help to strengthen the internal controls environment within the District.

D. Review of Budget Transfers

As part of our cash disbursement testing, we also examined 15 budget transfers randomly selected from the period July through November 2012. We also obtained and reviewed the District's policy on budget transfers. For each budget transfer selected, we verified that a "Budget Code Transfer Form" was completed with the amount to be transferred, the reason, and the budget codes involved. In addition, we examined the form to see if it was properly approved as per the District's policy. We also verified that the budget transfer was posted to the proper account. All requests for budget transfers under \$25,000 require approval from the Assistant Superintendent for

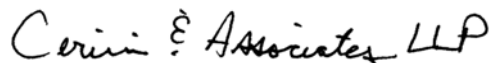
Business as well as the District Superintendent. Budget transfer requests greater than \$25,000 require Board approval in addition. Our review of the 15 budget transfers indicated no exceptions.

We would like to thank the staff at the District for its cooperation and professionalism during our testing.

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

A handwritten signature in cursive script that reads "Cerini & Associates LLP".

Cerini & Associates, LLP
Internal Auditors