

**Plainview–Old Bethpage
Central School District
Internal Audit Report on Detailed Testing
May 17, 2022**

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INTERNAL AUDIT REPORT ON DETAILED TESTING

To the Board of Education and Audit Committee
Plainview–Old Bethpage Central School District
Plainview, New York

We have prepared this report as the result of our detailed testing as further described, which were agreed to by the Plainview–Old Bethpage Central School District (District), on purchasing and disbursements during the period January 1, 2021 through February 28, 2022.

The District's management is responsible for administering these areas.

This engagement for detailed testing was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on purchasing and disbursements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than the specified parties.

Cullen & Danowski, LLP
May 17, 2022

PLAINVIEW-OLD BETHPAGE CENTRAL SCHOOL DISTRICT
Internal Audit Report on Detailed Testing
For the Period Ended February 28, 2022

Introduction:

This report is organized as follows:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan (CAP), approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

The District should submit the CAP along with the respective Internal Audit Report via the NYSED Portal.

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PURCHASING AND DISBURSEMENTS

Background:

Section 104-b of the General Municipal Law (GML) requires local governments to adopt written policies and procedures governing the procurement of goods and services when competitive bidding is not required. This statute also requires local government personnel to document certain purchase-related decisions. In addition to provisions to ensure compliance with the GML Section 104-b, the adopted policies and procedures should identify authorization limits, the use of requisitions and purchase orders (PO) and the process to follow when purchasing goods and services.

Purchasing is a highly specialized activity in school administration. It is a process that seeks to obtain maximum value from each educational dollar spent for equipment, supplies and contracted services. Prudent purchasing practices help upgrade the quality of programs as well as control cost. The Purchasing Agent for the District has responsibilities that include reviewing and approving purchase requests to ensure that all legal requirements are met and that goods and services are purchased only after a full review of the requisition and at an appropriate cost. The Purchasing Agent is assisted by a clerk in the Business Office who provide assistance for the Purchasing Agent that includes entering new vendor information into the WinCap system, revising PO amounts based on approved budget transfers and communications with vendors. There is 1 full-time and 1 part -time accounts payable clerks who perform a review of the vendor invoices and enter all payments into the WinCap system. Additionally, the District has a Claims Auditor who reviews all disbursements prior to sending the payments to the vendors.

The District uses WinCap as its financial accounting system. This system is a robust system that has been designed to provide services to New York State school systems. The purchase requisition manager module and the PO manager module are fully integrated into the financial accounting system. The WinCap system provides certain levels of user controls and certain processing controls, which substantially reduce the likelihood of error in the processing of purchase requisitions and POs. For example, the system is setup to forward purchase requisitions along a pre-established hierarchy of employees for review and approval depending on the type of expenditure and the department requesting the purchase. Only after the appropriate employees have approved a purchase requisition will the request be able to be processed and approved as a PO by the Purchasing Agent.

There are authorized District employees (requisitioners) who are responsible for acquiring the needed goods or services for the staff working in their respective building or department. The requisitioners are given the appropriate system access to WinCap to enter purchase requests into the Requisition Module that require proper approval by an administrator prior to submission to the Purchasing Department for review and approval. In addition, the requisitioners are given access to their specific budget codes only based on the responsibility of their respective administrator.

The purchasing procedures require contracts to be prepared when the District requests third parties to provide services. These contracts are submitted to the Board of Education (Board) for approval and no payments are made to vendors until the contract has been Board approved and then the PO is subsequently issued. Additionally, the District prepares its own bids for some purchases or utilizes state contracts, BOCES bids, county consortiums (i.e., Special Education Department for related services and Facilities Department for various goods or services) and other local bids. Also, requests for proposal (RFP) are obtained for some services including legal, auditing and other professional services. The District also uses Educational Data Services (Ed-Data) to facilitate the bidding process for certain items.

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The District has taken several initiatives to enhance the purchasing and disbursements processes including:

- The District has set up the requisitioners with access to WinCap to enter the pending POs directly into the system, which has replaced the previous procedures using hard copy forms prepared manually.
- The Business Office has reduced the paper flow related to purchasing by requiring the requisitioners to scan the documentation to support the pending requisitions and attaching the scanned files with the pending PO within WinCap. This file is reviewed by the designated supervisor and the Purchasing Agent as part of the electronic routing process to approve and convert the pending requisition into a PO.
- The Purchasing Department has realized cost and time savings related to utilizing WinCap to send the PO to the vendor systematically by email.
- The Business Office has started adding the W-9 and any other forms as electronic files to the vendor set up in WinCap in place of saving electronic files of these records on a shared drive.
- The Business Office has recently completed a review of the entire vendor master file and established procedures to complete this review periodically that includes inactivating any vendors with no activity for a specified time period within the WinCap financial system.
- The Business Office is investigating the increased use of scanned documents where the requisitioners would attach PDF files related to the verification of receipt of goods or services. The receiving copies of the PO along with any other documents (i.e., packing slip, shipping records, etc.) would be electronically attached within WinCap rather than sending these hard copy document to the Business Office via District courier.

Summary:

Our scope of work included interviews with the Business Office staff and numerous requisitioners to gather information regarding the procedures in place at their location with respect to the employees entering purchase requisitions, individuals approving requisitions, budget preparation and monitoring, budget transfers, managing POs, etc. We suggest that the District consider implementing the recommendations noted below to further strengthen internal controls and improve operational efficiencies related to purchasing and disbursements.

Procedures:

Our procedures related to purchasing and disbursements, as per the engagement letter dated February 3, 2022, were as follows:

- Review Board policies and District procedures related to the purchasing and disbursement functions.
- Interview Business Office personnel regarding policies, procedures and systems in effect related to purchasing and disbursements.
- Interview the employees responsible for purchase requisitions in the main office at each school and the Facilities, Athletics, Student Services and Information Technology Departments to determine if the procedures followed by the staff are standardized and consistent within the District.
- Review the current requisitioning and purchasing processes and identify the strengths, weaknesses and key control attributes for testing.

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- Review the purchasing related activity for vendor accounts during the time period as follows:
 - Accounts with disbursements greater than \$100,000 – select a sample of 15 accounts.
 - Accounts with disbursements between \$20,000 and \$100,000 – select a sample of 15 accounts.
 - Accounts with disbursements between \$10,000 and \$20,000 – select a sample of 15 accounts.
 - Accounts with disbursements between \$300 and \$10,000 – select a sample of 10 accounts.
- For each of the 55 accounts selected we will review the nature and frequency of transactions with the vendor and examine the purchasing and disbursement records for up to 2 judgmentally selected invoices to determine whether the applicable policies and procedures have been followed.
- Review the financial system user accounts and respective permissions related to the purchasing area to ensure that users have the appropriate level of access based on their job responsibilities.

Findings:

Review of Board policies and District procedures related to the purchasing and disbursement functions and interviews with Business Office personnel regarding policies, procedures and systems found:

- There are Board policies, regulations and formal procedures covering the purchasing and disbursement activities. The District's *Board Policy #6700 – Purchasing* covers the purchasing thresholds related to bids by stating that "The General Municipal Law requires that purchase contracts for materials, equipment and supplies involving an estimated annual expenditure exceeding \$20,000 and public work contracts involving an expenditure of more than \$35,000 will be awarded only after responsible bids have been received in response to a public advertisement soliciting formal bids. Similar procurements to be made in a fiscal year will be grouped together for the purpose of determining whether a particular item must be bid."
- The *Board Purchasing Regulation -#6700-R* includes a *Section V – Quotes When Competitive Bidding Is Not Required* that states "Goods and services which are not required by law to be procured by the district through competitive bidding will be procured in a manner so as to ensure the prudent and economical use of public monies in the best interests of the taxpayers. Alternative proposals or quotations will be secured by requests for proposals, written or verbal quotations or any other appropriate method of procurement..." This includes written quotes for Purchase Contracts between \$3,001 to \$19,999 and verbal quotes for Purchase Contracts from \$1 to \$3,000 and written quotes for Public Work Contracts from \$3,001 to \$34,999 and verbal quotes for Public Work Contracts from \$1 to \$3,000.
- The District schedules periodic training for the requisitioners that is provided by the Purchasing Agent and the Purchasing Agent also assists new requisitioners with learning the duties of that role. In addition, the Purchasing Agent has obtained pertinent accreditations, participates in various groups and attends conferences related to purchasing activities.
- The Purchasing Agent reviews all contracts and cooperative bids prior to the start of each fiscal year and this includes verifying that these contracts and bids are still valid, properly vetted and accessible. The process includes the preparation of a list of the contracts and bids that is Board-approved as part of the annual reorganizational meeting.
- The Districts Board Policies (6700, 6710, 6740, & 6741), Regulations (6700-R & 6740-R) and Exhibits (6700-E.1 & 6700-E.2) related to purchasing do not include language regarding the procurement of goods or services using federal grant funds as required per the Uniform Grant Guidance (2 CFR Part 200).

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Interviews with the employees responsible for purchase requisitions in the main office at each school and the Facilities, Athletics, Student Services and Information Technology departments noted:

- The District has established procedures to streamline the requisition processes by requiring the requisitioners to send scanned documents related to the requisitions to the Purchasing Department.
- The use of state contracts and cooperative bids can be an efficient method of purchasing goods and services. We note that purchases were being ordered through the applicable state contract or bid; however, there are no formal procedures to include the state contract/bid pricing documentation with the requisition package. Without this documentation on the purchase requisition it is difficult for the Purchasing Agent or Claims Auditor to determine if the District's purchasing guidelines have been followed. The District also needs to clearly assign the responsibility of verifying pricing related to purchases off of contracts and bids to the requisitioners, since it's not clearly defined that they are required to perform this task.
- The receiving process could be strengthened because we noted that there are instances when the school building or department requisitioner is also the employee responsible for signing-off on the receipt of goods. The preferred practice is to have a second employee verify the receipt of goods resulting in a stronger control so that there is appropriate segregation of duties between the requisitioning and receiving procedures.
- There are opportunities for improvement regarding the retention of purchasing related documents. We found that there is a lack of standard protocols defining the retention period (e.g., number of years) and the types of records to retain. Based on our interviews, there were variations related to the retention of documentation that ranged from 2 years to always retaining purchasing records in storage.

Review of the current requisitioning and purchasing processes and the purchasing related activity for the selected 55 vendor accounts and the selected 108 payments to these vendors during the period found:

- There were no exceptions related to the payment amounts based on the sample of disbursements that we reviewed during our engagement. The District has appropriate procedures to verify that invoice amounts agree with the check amounts. This matching process is performed by the Accounts Payable Clerk and the Claims Auditor prior to releasing the vendor payments.
- There were 55 instances where insufficient details were included within the body of the purchase order and/or insufficient supporting documentation within the disbursement voucher packet to verify that the items and/or pricing per the vendor invoice agreed to the respective bid or contract information.
- There were 8 instances where goods or services had been received prior to a PO being in place; also known as a confirming PO.
- There were 4 instances where a payment was made to a vendor more than 90 days after the invoice date.
- There was 1 instance where the amount paid per the invoice lists a unit cost of \$9,654 that exceeded the amount listed on the PO of \$9,373.

Review of the financial system user accounts and respective permissions related to the purchasing area to ensure that users have the appropriate level of access based on their job responsibilities noted:

- The user accounts and permissions related to the WinCap purchasing module appear proper based on the employee's job duties.
- There are appropriate procedures in place to manage the WinCap user accounts that includes approvals from the Assistant Superintendent for Business related to staff changes requiring access to WinCap based on their roles prior to the System Administrator setting up a user account.

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- The System Administrator performs periodic reviews of the WinCap users accounts during each fiscal year to update any accounts (e.g., inactivate) as necessary.
- There was 1 instance where the District had 2 active WinCap user accounts for one employee with the same permissions. Once notified, the Business Office inactivated one of the accounts.

Recommendations:

We recommend that the District consider implementing the following to further improve internal controls and operational efficiencies related to purchasing and disbursement activities:

1. Establish formal procedures related to contracts/bids that require the pricing of these items to be included in the voucher package (e.g., copy of the pages supporting the price) or at least written notation that an employee has verified the pricing to the respective bid or contract. We recommend that the Department enter information related to contracts/bids into WinCap when the purchase requisitions are created to include these details on the PO. The Department should also include the pages from the contracts/bids that support the prices and items related to the PO or make notations on the PO documentation that the prices and items were verified to the contracts/bids. In the event that there are numerous low value products, then the Department should verify a sample of the items. We also recommend that the District clearly assign and formally document the responsibility of verifying pricing related to purchases off of contracts and bids to the requisitioners.
2. Strengthen the purchasing process by having a second employee, who is not involved in the purchasing process, verify the receipt of goods resulting in a stronger control by establishing appropriate segregation of duties between requisitioning and receiving responsibilities.
3. Improve the purchasing process by continuing with efforts to create POs in advance of receiving goods or services, thus preventing instances of confirming POs where goods or services are received prior to preparing the purchase requisition. The procedures should ensure that the District properly encumbers funds before entering into a commitment with an outside vendor, so approved POs are obtained prior to receipt of goods or services.
4. Revise the Board Policies (6700, 6710, 6740, & 6741), Regulations (6700-R & 6740-R) and Exhibits (6700-E.1 & 6700-E.2) related to purchasing to include language regarding the procurement of goods or services using federal grant funds as required per the Uniform Grant Guidance (2 CFR Part 200).
5. Establish District-wide standard procedures related to the retention period and types of records regarding the purchasing related documents maintained outside of the Business Office. Some documents may need to be retained for longer periods as deemed necessary (e.g., warranty records, long-term agreements, etc.).

