



# **Huntington Union Free School District**

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## **Review of Purchasing and Accounts Payable**

**May 2019**

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The Board of Education  
Huntington Union Free School District  
50 Tower Street  
Huntington, NY 11746

Board of Education:

We have been retained to function as the internal auditor for the Huntington Union Free School District (hereinafter, “the District”). Our responsibility is to assess internal control systems in place within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District’s Board, 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 during the 2018-2019 school year, we recommended performing a review of the purchasing and accounts payable processes. The purpose of our review was to assess whether the District has sufficient internal controls over the procurement and payment of goods and services. This includes assessing that the Board has established adequate written policies and procedures for procuring services, the District utilized competitive methods when procuring goods and services, and that claims for payment contained sufficient support to verify that the items and pricing of the invoices agreed with the contracts or cooperative bids. By using competition, the District can ensure the taxpayers that goods and services were procured in a prudent and economical manner, services obtained meet quality expectations, and purchases are made at the best possible prices. In addition, the District should ensure that procurement of services and goods is not influenced by favoritism and is for school-district purposes.

**SCOPE:**

As part of this testing, we selected 35 cash disbursements from nVision’s Vendor Transaction Report that occurred during the period January 1, 2019 through March 31, 2019, and performed procedures to determine that each transaction was valid, conformed to the General Municipal Law (GML), and followed the documented policies and procedures of the District. As part of our review, we also verified whether the internal controls related to cash disbursements were sufficient and effective. The District issued 1,319 cash disbursements from the General Fund, the School Lunch Fund, the Federal Fund, and the Capital Fund during the period January 1, 2019 through March 31, 2019. Our sample consisted of 20 disbursements from the General Fund, 4 from the School Lunch Fund, 9 from the Federal Fund, and 2 from the Capital Fund totaling \$186,558.90. We included in our General Fund selections, 2 Medicare Part B premium reimbursements for the period January 1, 2018 through December 31, 2018 from a January 2019 warrant to assess whether reimbursements are accurate and properly supported.

For each transaction, we assessed if the documentation attached to the claim packet adequately supported the validity and accuracy of the claim. We then verified whether the claim packet had been approved by the Claims Auditor and that the appropriate bids and quotes were obtained for any purchases that were in excess of the required amounts and contracts. We also examined the monthly reports to the Board as prepared by the Claims Auditor to determine whether all checks were accounted for, the correct check numbers were listed in the correct month, and any issues were properly reflected in the reports.

In addition, we selected 10 vendors from nVision's Vendor Payment Summary for the year ended June 30, 2018. These vendors exceeded GML procurement thresholds and therefore might have required the District to procure them through competitive bidding as required by GML, Section 103. We verified whether the vendor went through the proper procurement procedures as required by GML and District policy.

Lastly, the District upgraded its financial application software from Finance Manager to nVision in February 2019. As part of our review of purchasing and accounts payable, we examined the access permissions established within nVision to verify whether access to the purchasing and the accounts payable functions is adequately restricted to only those individuals responsible for inputting, updating and reviewing such data. The scope of our review entailed gaining an understanding of how access is granted and then verifying whether the access permissions within this application are properly restricted, proper segregation of duties exists, and access is limited based on the user's job descriptions and responsibilities.

## **RESULTS OF REVIEW**

While our review of purchasing and accounts payable processes indicated that the District has implemented internal controls related to purchases and disbursements, and compliance with District policies and GML, we noted areas where internal controls could be improved. In addition, we noted access permissions could be further strengthened to ensure that risks related to cash disbursements are minimized.

The detailed results of our review are documented below.

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### **A. PURCHASING POLICIES & PROCEDURES**

The District is required by GML to competitively bid for purchases and public works contracts in excess of \$20,000 and \$35,000, respectively. The District is also required to adopt written policies and procedures regarding the process for procuring goods and services not subject to competitive bidding requirements. The Board is responsible for establishing, implementing, monitoring, and enforcing compliance with the District's procurement policy.

GML also requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements, such as professional services and items that fall under bidding thresholds. These policies and procedures should indicate when District officials must obtain competition, outline procedures for determining the competitive method that will be used and describe the documentation requirements and responsibilities. Competitive methods can include competitive bidding, sending out a request for proposals (RFP) and gathering written and verbal quotes.

In 2001, the Board adopted purchasing policies 5420 and 5421, and regulations related to those policies. The District's purchasing policies are in accordance with GML. In addition, the District revised the administrative policy regulations of 5410R.1 on February 4, 2019, which indicates the procedures for the requirements of verbal and written quotes when purchases are below the GML threshold. Lastly, the District updated its Board policies with respect to the Uniform Federal Guidance requirements. During our review, we noted the following:

**Issue #1:** The District's threshold for requiring verbal or written quotes for those purchases of supplies and equipment not covered by GML is the same for purchases that are \$750.00 and those that are \$19,999.00. In addition, the District's threshold is currently set to \$750.00 for obtaining three verbal quotes for all district-wide purchases. The Purchasing Handbook on the State Education's website states that the purpose of obtaining quotations is to encourage competition in the procurement of supplies, equipment, and services, which will be paid for from public funds. Quotations may be requested on an item or items involving an expenditure that does not exceed the dollar limits.

**Risk:** To go through the same procedure for a \$750.00 purchase as for a \$1,000.00 purchase may result in inefficient use of time and resources. In addition, requiring the same support (i.e. verbal quotes) for those purchases that are \$750.00 as those that are \$19,999.00 may not result in competitive procurement of goods and services.

**Level:** Low-Moderate

**Recommendation:** We recommend that the District increase the threshold for obtaining verbal quotes to \$1,000. In addition, we recommend that the District create an additional threshold for higher cost purchases and require written quotes (e.g. \$5,000 to \$19,999).

**Management's Response:** *Management agrees and will revise Administrative Regulation 5410.R (Procurement Guidelines) to reflect new thresholds.*

## **B. ACCOUNTS PAYABLE PROCEDURES**

Invoices are processed for payment by the Accounts Payable clerk once a receiving copy is received, and the payment is approved by the person who requisitioned the purchase. 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 clerk requests further information to support the payment for the claim. The clerk then prepares the payment and attaches the check with all supporting documentation as a claim packet for review by the District's Claims Auditor.

We selected 35 cash disbursements and performed tests to ensure the payments were correct, the claim packets contained sufficient support to justify each payment, and each claim was for an appropriate District expenditure. We noted the following:

**Issue #2:** There was 1 instance where the claim packet did not contain the proper back-up to support the purchase of goods as required by District policy: specifically, the

requisition did not indicate the basis for choosing the vendor. In addition, we noted 2 instances in which a sole source letter was not obtained. Lastly, we noted these instances were not included in the claims audit report.

**Risk:** There is an increased risk that good and services may not have been obtained for the best value to ensure the most prudent and economical use of public funds.

**Level:** Moderate

**Recommendation:** We recommend that the District ensure that requisitions and purchases comply with GML and District policy. In addition, we recommend that the District ensure employees submit proper purchasing documents as dictated by District's policy prior to purchasing the items. The claims auditor should indicate when these instances occur.

**Management's Response:** *Management has retrained appropriate personnel to ensure that requisitions and purchases comply with GML and District policy. Additionally, the claims auditor was informed of the noted finding.*

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**Issue #3:** There was 1 instance in which a payment was made 90 days after the date of the invoice for 2 of the 3 invoices attached to the claim packet.

**Risk:** There is an increased risk that payments may be duplicated and/or that invoices may not be paid in a timely manner and may result in late fees.

**Level:** Low-Moderate

**Recommendation:** We recommend that the Accounts Payable department date-stamp invoices when they are received. This will help to identify those invoices that are not being reviewed and approved by the requisitioner in a timely manner.

**Management's Response:** *Management agrees and the District's Accounts Payable department has implemented the auditor's recommendation.*

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**Issue #4:** There was 1 instance in which the Medicare Part B reimbursement payment made to a retiree was issued with the incorrect amount. As this was related to human error, it is considered an isolated error and testing was not expanded. During our review, we also noted that Medicare Part B reimbursements are not paid subsequent to receiving retirees' SSA-1099.

**Risk:** There is an increased risk of incorrect payments to retirees for Medicare Part B reimbursements.

Level: Moderate-High

**Recommendation:** In 2017, the way in which the standard monthly Part B premium was calculated changed resulting in new premium rates which varied by person. We recommend the District reimburse retirees for the Medicare Part B premiums based on the amount listed on the annual SSA-1099 form.

**Management's Response:** *Management agrees and will notify impacted retirees in December 2019 that starting in 2020-2021 their payments will not be processed until after the SSA-1099 form is received by the District, typically in March. This notification process provides the retirees with the ability to plan accordingly as they will no longer receive payment in December.*

### **C. COMPETITIVE PROCUREMENT**

Under GML, the Board is required by law to award all purchase contracts for goods, specifically supplies, material, and equipment, involving expenditures in excess of \$20,000 and all contracts for public works in excess of \$35,000 to the lowest, responsible bidder after properly advertising for public sealed bids. The District procures goods and public works services through competitive bidding following the thresholds set by the New York State GML. The NYS Office of the State Comptroller (OSC) stated "*GML stipulates that goods and services which are not required by law to be procured pursuant to competitive bidding...be procured in a manner to assure the prudent and economical use of public moneys...to facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances, and to guard against favoritism, improvidence, extravagance, fraud and abuse. [In addition,] the Board is responsible for ensuring the development of policies and procedures which clearly provide that alternative proposals or quotes for goods and services shall be secured by the use of written requests for proposals, written quotes, verbal quotes or any other method of procurement which furthers the purposes of GML. The procedures should also require adequate documentation of actions taken with each method of procurement, require justification and documentation of any contract awarded to other than the lowest responsible dollar offerer and set forth circumstances when, or the types of procurement for which, the solicitation of alternative proposals or quotes will not be in the best interest of the District.*" Guidelines for purchasing goods and/or services when competitive bidding is not required by GML, Section 103 are documented in District policy regulations 5410R.1.

We selected 10 of the 166 vendors who were paid an amount that exceeded GML procurement thresholds during 2017-2018. We reviewed whether the District competitively procured products and services in accordance with District policy and GML. **No exceptions were noted.**

**Auditor's Comment:** During testing, we noted the District did not obtain an RFP for one vendor who provided professional services. Although both District policy and GML do not require the District to competitively bid or to follow District procedure requirements for professional services, the District should consider obtaining RFPs periodically for professional services.

### **D. BUDGET TRANSFERS**

Per the New York State Education Department (NYSED) guidance, the Board is permitted to abdicate the authority to review and approve budget transfers to the Superintendent. District policy 5330 states that "within legal limits as established by the Board, the Superintendent is authorized to transfer funds within the budget. 8 New York Code of Rules and Regulations

(NYCRR) Section 170.2 Education Law Section 1718. Whenever changes are made, they are to be incorporated in the next Board agenda for information only." The District did not however establish a limit, therefore all transfers must be reviewed and approved by the Superintendent. While the Board does receive a copy of the request of the transfer for information purposes only, the Board does not have the authority to approve or deny the transfer.

The District made 32 budget transfers totaling \$1,201,293.75. We selected 10 budget transfers totaling \$666,561.92 from the Budget Transfer Query report in nVision for the 2018-2019 school year (July 1, 2018 to date). For each budget transfer selected, we verified whether the transfer form was completed with the required information and approvals, and in conjunction with the District's policy. In addition, we verified whether the transfer was posted to the proper account and was approved by the Board, if applicable. Lastly, we obtained the Appropriation Status report from nVision for the school year to date to determine whether the codes had sufficient funds before the transfer request. **No exceptions were noted.**

#### **E. REVIEW OF CLAIMS AUDITOR FUNCTION**

The Claims Auditor is responsible for reviewing the claim 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. 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.

#### **F. ACCESS PERMISSIONS**

Access permission controls are intended to provide reasonable assurance that computer resources are protected from unauthorized use and modifications. We obtained a report of all users' access permissions within nVision as of March 27, 2019 and specifically reviewed the roles related to the purchasing and accounts payable functions. nVision contains several modules for performing various financial and human resources functions including payroll, human resources, accounts payable, and accounting. Access within nVision is role-based, meaning that users are assigned to a group and each group is assigned specific access permissions to the modules. Permission changes are performed by users who are assigned to the User/System Administrator group.

nVision has the ability to produce a log indicating when, where, and who uses the computer system. It can also generate a log of all changes made to the information included in the vendor master files. Since virtually all District accounting records and reports are computer generated, it is important that District officials review audit logs periodically in order for the District to adequately assure that changes to its financial information are appropriate and authorized.

As part of our review, we examined the access permissions established within nVision to verify that access to purchasing and accounts payable functions is adequately restricted to only those individuals responsible for inputting, updating and reviewing such data. We noted the following:

**Issue #5:** Based on the access capabilities listed, we determined that certain accounts payable and purchasing staff have greater access capabilities than needed to perform their job function and/or could compromise proper segregation of duties.

**Risk:** Unauthorized transactions may occur and not be readily detected.

**Level:** High

**Recommendation:** We recommend that the District restrict access further to limit users only to those functions necessary to perform their job function. To minimize the risk of unauthorized transactions, we recommend that access permissions be reviewed at least annually to ensure proper segregation of duties. In addition, we recommend District officials periodically review audit logs produced through the nVision application to ensure that changes to its financial information are appropriate and authorized.

**Management's Response:** *Management agrees and, based on the auditor's recommendation, changes were made to restrict access further to limit users only to those functions necessary to perform their job function. Access permissions will be reviewed at least annually to ensure proper segregation of duties. In addition, District officials will periodically review audit logs produced through the nVision application to ensure that changes to its financial information are appropriate and authorized.*


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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,



Cerini & Associates, LLP  
Internal Auditors