

INTERNAL AUDITOR'S REPORT
Huntington Union Free School District
For the 2015-2016 Fiscal Year



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November 28, 2016

Board of Education and Audit Committee
Huntington Union Free School District
Administrative Offices
50 Tower Street
Huntington Station, New York 11746

To the Members of the Board of Education and Audit Committee:

In accordance with the terms of our engagement with the Huntington Union Free School District (the District), we have performed the District's annual risk assessment update as required by Chapter 263 of the Laws of New York of 2005 for the 2015-2016 school year.

Chapter 263 of the Laws of New York of 2005 requires that school districts establish an internal audit function to perform a risk assessment of district operations including, but not limited to, a review of financial policies and procedures and the testing and evaluation of district internal controls.

Internal controls are procedures put in place by management to help achieve the stated mission and objectives of an organization. The design and implementation of internal controls is the responsibility of management. These control procedures help promote efficiency in operations, reduce risk of loss and ensure reliability of financial data. In addition, internal controls are designed to provide reasonable, but not absolute, assurance regarding the achievement of the entity's objective to promote compliance with established policy, laws and regulations. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits derived. There are inherent limitations that should be recognized in considering the potential effectiveness of any internal control system such as errors, mistakes of judgment, carelessness, collusion or other factors.

Annual Risk Assessment

Risk assessment is the entity's identification and analysis of relevant risk to the achievement of its objectives, forming a basis for determining how the risks should be managed. It should identify risk and analyze the likelihood of occurrence and impact. This process allows the Board of Education (BOE) to determine how much risk it is willing to accept and to set priorities accordingly. The assessment should focus on what can go wrong that would prevent the achievement of the objectives, the likelihood and consequences of something going wrong, and what actions can be taken to minimize the potential of occurrence.

In assessing risk, we consider both inherent risks: the risk associated with a system based upon the nature of the transactions processed by that system (i.e. quantity, complexity, value, etc.) and control risk: the risk that the system of internal control is not adequately designed to prevent or detect errors or irregularities.

Risk assessment is an ongoing internal audit function. This process includes a review of policies, procedures and controls that the District has in place to prevent errors, detect fraud, safeguard District assets and ensure that financial reporting is accurate. Interviews and checklists are utilized to confirm our understanding of the control process and assess changes in risk, with an emphasis on increased risks related to changes in key personnel; changes in policies, laws and regulations; and new policies, laws and regulations. The scope of our risk assessment engagement did not include testing the operating effectiveness of such controls. Risk assessments of key operational and financial areas are documented in a matrix to facilitate monitoring of risks on an annual basis.

Our procedures were not designed to express an opinion on the internal controls of the District, and we do not express such an opinion. Because of inherent limitations of any internal control, errors or fraud may occur and not be detected by internal controls. Also, projections of an evaluation of internal controls to future periods are subject to the risk that procedures may become inadequate because of changes in conditions.

The key operational and financial areas include the following general categories:

- Governance and Planning
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Special Education
- Payroll
- Employee and Retiree Benefits
- Human Resources
- Purchasing and Expenditures
- Facilities
- Fixed Assets
- Safety and Security
- Food Service
- Extraclassroom Activity Fund
- Student Related Data
- Information Systems

Upon consideration of the potential risks in the District's various operational and financial areas, the Audit Committee directed us to perform detailed testing/evaluation procedures in one or more key areas.

Detailed Testing/Evaluation Procedures

As a result of the risk assessment process, with the assistance of the District's Audit Committee and management, tests have been designed to evaluate the effectiveness of existing internal controls and their implementation in the following area(s):

- Purchasing and Cash Disbursements (pages 4 - 29)
- Collection and Posting of Cash Receipts (pages 30 - 35)
- Journal Entries (pages 36 - 40)
- Network Security - specifically, access to applications and password requirements (due to the nature of the information addressed, this portion of the report is presented under separate cover so as to exclude it from the information posted to the District's website).

We have performed the testing and evaluation for the operational/financial areas listed above. The results of this testing and evaluation, as well as our findings, recommendations and management's response are reported in the following section. As part of the ongoing internal audit function, we will continue to assess and monitor the implementation of any corrective actions deemed necessary.

This report is intended solely for the use and information of the BOE, Audit Committee and management of the Huntington Union Free School District and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve you as internal auditors and thank the District's management and staff for their assistance and cooperation.

Very truly yours,



Sheehan & Company, C.P.A., P.C.
Brightwaters, New York
November 28, 2016

Purchasing and Cash Disbursements

Background

The District's Policy Number 5410 is both informative and comprehensive as applies to the area of "purchasing". Although adopted approximately 15 years ago (June 11, 2001), its contents are fundamental and provide the foundation for the adoption of additional specific policies and procedures:

"Purchasing is an important function in support of the education of the students of the District. The purchasing roll is to provide the necessary equipment, supplies and services needed at the best cost to the District.

It is the goal of the Board to purchase competitively, without prejudice or favoritism, and to seek the maximum educational value for every dollar expended.

The purchasing process should be performed within budgetary appropriations by the Board-appointed purchasing agent, following existing laws, regulation and BOE procedures. The purchasing agent has the sole authority to contract for necessary supplies, equipment and services on behalf of the District."

The policy goes further to identify the principles of purchasing:

- a) Requisitions
- b) The Purchase Order
- c) Procedures

Board Policy Number 5421, last revised March 24, 2014, details the responsibilities and authorities of the BOE-appointed Purchasing Agent and indicates that administrative regulations and procedures will be/have been developed for the procurement of goods and services.

The process that "concludes" the purchasing function is Cash Disbursements, which refers to payments made by the District. It includes payments made by cash (which is not typical, but does occur via petty cash), checks and/or electronic fund transfers. The District's Policy Number 1332 "Duties of the School District Treasurer", revised January 27, 2014, includes duties applicable to the Cash Disbursements function such as:

- a) Paying authorized District obligations
- b) Signing all checks drawn on the District's accounts
- c) Safeguarding his/her electronic signature
- d) Overseeing check preparation
- e) Reconciling bank statements and preparing and presenting applicable reports

An effective system of internal controls includes enforcing these written policies and procedures to provide reasonable assurance that the purchasing and cash disbursement processes are

operationally effective and efficient, produce reliable and meaningful financial reports and comply with the applicable laws.

Overview of Procedures Currently in Place

As cited in the District's Principles of Purchasing policy, the purchasing function consists of three basic components - with the final component containing several steps. In many cases, the specifics of these components will differ depending upon the variables that make up a purchase transaction - essentially what is being purchased and the dollar amount of the purchase. In each instance, the District must ascertain that it is operating under the laws as promulgated by New York State as well as the policies that have been put in place by the BOE. Controls should be in place not only to provide reasonable assurance that the applicable laws and policies are being adhered to, but also that the resulting purchasing transactions are complete and accurate.

For purposes of presentation, this report will address each of the components of the purchasing function - first, broadly; and then as it may apply to different categories of transactions. If more specific procedures apply to transaction types included in the internal audit test work, additional details will be provided accordingly. Due to the timing of the test work itself and at the direction of the Assistant Superintendent for Business, only the General Fund's purchasing procedures were addressed and, therefore, discussed here. (The General Fund code is A.)

Step One: Requisitions

A purchase requisition is a document generated by a "user" (usually a department chair secretary or school principal secretary) to notify the purchasing agent of items he/she needs to order, the quantity needed and the related unit costs. These are generated, on an as-needed basis via the Purchase Requisition Module in Finance Manager. (The user's access to Finance Manager is limited - with requisitions being one of the system modules they are permitted to access via a password.) The requisition also includes the budget code against which the purchase requisition applies and once generated, Finance Manager reserves the applicable dollar amount from that budget code. A hard copy of the requisition is printed out and, depending upon the category into which the requisition falls, all required supporting documentation is attached (see below). The department director or school principal reviews the document, verifying the accuracy of the budget code used and whether or not there is enough money in that code to support the requisition; his/her signature documents the review process. The document package is then sent via interoffice mail to the purchasing agent. The basic requisition is created for a single, specific purchasing transaction; blanket requisitions can also be generated which will cover multiple transactions occurring throughout the fiscal year.

Requisition Procedures Defined by Dollar Amount

New York State law requires requesting bids or quotations when an item or commodity group exceeds certain thresholds: contracts for public works (labor and materials) that exceed \$35,000 and for purchase contracts that exceed \$20,000 (Gen. Mun. Law Section 103(1); Educ. Law sections 1619, 2513, 2556(10)).

The purpose of the bidding process is to encourage competition and define specifically what an item will cost, where it will be obtained and when delivery will be made. Board Policy Number 5420, last revised March 24, 2014, titled "Purchasing: Competitive Bidding and Offering" addresses the general aspects of state law; Administrative Regulations Number 5420R, adopted October 1, 2002 includes the specific procedures to be followed as applies to the bidding process.

It is important to note that both a Request for Proposal (RFP) and an Invitation for Bid (IFB) satisfy the requirements under this category.

IFB - used when there is no substantive difference among the products or services that meet the cited specifications - the only difference among responses will be the price. For example, if the District was in the process of selecting a vendor to print all the taxpayer mailings for the year and the total cost would exceed \$20,000, an IFB would be the appropriate vehicle for the bid or quotation process. Any number of vendors could produce the same end product; the differentiation among them would be the price quote.

RFP - many complex products or services cannot be obtained by a conventional bidding process which is based solely upon price. Sometimes there is no specifically identified end product and although the District can define the service needed, it is relying on proposers to develop a plan to provide that service and develop the related cost estimate. In addition to the price quote, an evaluation of the plan and other required criteria would be key components of the District's decision. As an example, if the District was in the process of deciding upon their external auditor, an RFP would be appropriate.

The purchasing agent utilizes a District Bid Calendar, which is updated each year and lists those purchasing categories that meet the dollar threshold to fall under these requirements (Exhibit A). For each purchasing category, two dates are indicated - a date when an advertisement is to be placed (public notification of bid or proposal request) and a date when the bids or proposals will be opened. Using the calendar as a guide, and several months before the noted "advertise date", the purchasing agent sends copies of the most recent prior IFB or RFP to the applicable users so that any necessary updates can be made to the language or specifications. The purchasing agent updates the IFB or RFP as necessary and sends a copy to the current applicable vendor and provides the necessary information to the secretary to the Assistant Superintendent for Business so that the public advertisement can be placed on the indicated date. Currently, ads are placed in the local newspaper. Going forward, Newsday and BidNet will be utilized.

Bids or proposals are received by the purchasing agent, (if not received directly, they are forwarded, unopened to her) stamped as to the date received and held until the "open date" as

indicated on the Bid Calendar. On the "open date", the purchasing agent and the secretary to the Assistant Superintendent for Business (or the Assistant Superintendent for Business for certain vendor categories) physically open the bids or proposals, asking any vendors attending the event to sign in accordingly. Record is made of the bids or proposals received; the decision process follows accordingly - in instances whereby it is strictly an IFB and the vendor with the lowest price is awarded the contract, generally the purchasing department prepares a BOE award letter providing the details of the process and indicating the recommendation as to which vendor should be selected. When proposals are received, generally a specific department reviews them and prepares a BOE award letter based upon the competitive best value, which is based upon a combination of many factors including but not limited to price, quality, vendor reputation and timeliness of delivery.

The BOE award letters are submitted to the secretary to the assistant superintendent for business who incorporates them into the agenda for the next BOE meeting. Once there has been a BOE resolution to award the contract as detailed in the related award letter, the next step of the purchasing process (the purchase order) can be generated.

"Piggybacking" is an exception to the requirement to obtain bids or quotes. Under various state laws, school districts can piggyback for goods and services through contracts of the United States government, federal agencies, the federal General Services Administration, any state and other counties, political subdivisions or districts therein. As long as the contract holder is agreeable and since the original contract was awarded based upon the requirement of competitive bidding or best value, the District can eliminate the time consuming process of an IFB or RFP. Since the related requisition will usually indicate that it falls under a contract where piggybacking applies, the purchasing agent will access the applicable website, print the contract information and attach that as supporting documentation to the requisition. The process of creating a BOE award letter and obtaining a BOE resolution is not necessary.

The issuance and submission of the related purchase order will require the District to provide its authorized user identification number.

The District's Administrative Regulations Number 5420R, adopted October 1, 2002, also addresses the procedures to be used for purchases or contracts that fall below the dollar parameters requiring bids under section 103 of the General Municipal Law:

For purchases of \$250 or less, no quotations shall be required.

For purchases between \$250 and \$1,000, the person preparing the requisition must obtain a minimum of three quotes and prepare the requisition using the vendor who provided the lowest quote. These quotes must be attached to the submitted, approved requisition package and may be written or verbal; verbal quotes must be documented on the District's forms and contain specific information.

For purchases of \$1,000 or more (but not meeting the thresholds requiring bids), also require a minimum of three quotes; all quotes must be written and documented on the District's forms.

Also addressed in the District's Administrative Regulations Number 5420R are a number of instances whereby competitive bidding is not required by law:

- 1) When there is a public emergency requiring immediate action.
- 2) When there is only one possible supplier or source from which to procure goods or services, such as in the case of a public utility or patented item.
- 3) The purchase of surplus and secondhand supplies, material or equipment from the federal government, the state of New York and others set forth in law.
- 4) The purchase of specific school lunch items.
- 5) Contracts for professional services that require special skill or training, such as legal services, medical services, property appraisals or insurance.
 - a. A competitive RFP must be used when contracting for annual audit services; such engagement is limited to no longer than five consecutive years.
- 6) The extension periods of up to five years of contracts for cafeteria and restaurant services, student transportation, school bus maintenance and mobile instructional units subject to both certain limitations on annual cost increases and the approval of the commissioner.

Requisition Procedures for Repetitive Monthly Charges

With the exception of repetitive monthly charges for copiers, which is described below, at the beginning of each fiscal year, the applicable department will prepare a requisition for the total amount that will cover all the payments due during the year - a "blanket requisition". All other requisition procedures are the same as the general ones described above.

Education Data Service (EDS)

EDS is a Cooperative Procurement Management System which goes through the bidding process on many standard school supply items and selects the vendors who provide the lowest bids on an item by item basis. Teachers and school nurses are assigned a user name and password with which to access EDS. In April and May, they sign in and select the items they need for the following school year (they are allotted approximately \$100 - \$200 each), creating an electronic requisition. Their principal or department director then signs into EDS to approve the requisition, after which the purchasing agent also signs in and approves. Once approved, EDS prints and sends the related purchase orders to the Purchasing Department. EDS also provides proforma award letters. Using these proformas, award letters are generated for presentation to and approval by the BOE. The related purchase orders are then mailed to the respective vendors (EDS prices can be utilized throughout the school year if additional purchase orders are generated).

Step Two: The Purchase Order

Upon receiving a requisition package, the purchasing agent will verify that it has been approved, that the assigned budget account code is accurate and that the proper documentation is attached

depending upon the dollar threshold (as previously outlined). If the requisition falls under an existing contract, the purchasing agent will ascertain that the requisition falls within the parameters of the contract (if a copy of the contract is not attached, the file copy will be pulled or the piggybacked contract will be printed from the respective governmental website). If any of the particulars are not in agreement (i.e. the lowest bid is not being used or the items do not agree to the bid), the purchasing agent returns the requisition package to the originating department, which addresses the situation accordingly.

Once the package is reviewed, the purchasing agent places it in a folder, submitting it to the Assistant Superintendent for Business for review. The Assistant Superintendent for Business indicates completion of the review process by signing/initialing the requisition. (Although currently a part of the cycle for all transactions, requisition review by the Assistant Superintendent for Business was put in place primarily to monitor specific types/categories of requisitions. This level of review is actually not necessary across the board.)

The approved requisition package is returned to the purchasing agent who proceeds to create a purchase order by entering the requisition number into Finance Manager. Finance Manager assigns the purchase order number (in numerical sequence). The details of the requisition appear on the screen; the purchasing agent approves the requisition and the related four part purchase order is generated:

1. The purchasing agent physically signs both the original and purchasing department copies. The original copy is sent to the vendor - typically via U.S. Mail unless otherwise specified. The purchasing department copy (marked as such) is filed.
2. A signature disk is used for the remaining two copies, which are sent to the originating department - one will be used to evidence receiving of the goods ordered (the yellow highlighted copy) and the other copy will be maintained by the originating department accordingly.

If sufficient funds are not available in the assigned budget code, Finance Manager will not allow the requisition to be approved. The purchasing agent will return the requisition package to the originating department which will in turn, initiate a budget transfer or assign a different budget code.

Generally, once the purchase order has been generated, signed and distributed, the purchasing agent's involvement is complete.

Purchase Orders for Repetitive Monthly Charges Pertaining to Copiers

The District leases copiers that are housed throughout its properties. The Business Manager maintains the Schedule of Lease Payments which details the terms of each contract (Exhibit B). The purchasing agent will advise the Business Manager of any updates needed to reflect new or replaced copiers. At the beginning of each fiscal year, the purchasing agent prepares a purchase order (the requisition step is skipped) for each contract in the amount that will cover all contractual payments due during the year. Once generated, the purchase orders are submitted to

the Assistant Superintendent for Business for review and approval. Since contracts already exist and monthly invoices are already being received, a copy of the purchase order is not sent to the vendor/lessor. A copy of the purchase order is, however, maintained on file.

Purchase Order for Textbooks

The textbook selection and acquisition process is unique in that a detailed series of actions is implemented to select a particular publisher's textbooks and a certain number of new editions going forward. (The Assistant Superintendent for Curriculum and Instruction, the Book Committee and the BOE are all involved in this lengthy and specific process.) Even though the blanket dollar value of the textbooks to be acquired often meets the standard threshold requiring vendor selection via a bidding process, it does not apply here because the selected textbook is only available via its own publisher.

Purchase Orders for Utilities

On or at July 1 of each year, the Senior Account Purchasing Clerk (SAPC) will generate a blanket purchase order for each utility account throughout the District using the prior year as a guide as to the anticipated total amount for the current year. The purchasing agent's signature stamp ("disk") is used to sign each purchase order, which is then submitted to the Assistant Superintendent for Business for approval.

Step Three: Procedures

A. Goods or Services Ordered are Received

When goods or services are received, the "requisitioner" will sign off on the receiving copy of the purchase order (the yellow highlighted copy that the purchasing agent sends back to the originating department or school) and send it to the Purchasing/Accounts Payable Department, generally via interoffice mail. If the quantity received differs from the purchase order, the requisitioner will indicate such accordingly. Any and all other deviations from the purchase order are also noted.

Upon receipt, the Purchasing/Accounts Payable Department will attach the receiving copy to the copy of the purchase order maintained on file.

B. Vendor Invoice is Received and Processed

The specific vendor or "vendor type" will dictate which SAPC receives and processes an invoice as each has a defined list for which they are responsible. When vendor invoices are received (generally via mail and sometimes via email), the related receiving document and file copy of the purchase order are pulled. The three documents are compared to verify that all are in agreement.

All discrepancies are researched and rectified. If the vendor has to process a credit memo to correct its invoice, the invoice package is held and not processed until the credit memo

is received. Because credit memos do not always apply to a specific invoice (sometimes a vendor will issue one credit memo for several invoices), they are not always entered independently - often the amount of the credit memo is manually deducted from the applicable original invoice(s) total.

The District should not be charged sales tax. If sales tax is the only discrepancy, the invoice total is manually corrected, deducting the sales tax. No credit memo is requested nor received.

It is also verified that the purchase order (or the balance of a blanket purchase order) is at least equal to the amount of the invoice. The amounts could be different:

1. The invoice amount could be less than the purchase order, which does not prevent the process from going forward.
2. The invoice amount could be slightly more than the purchase order. For example, actual shipping charges can be more than the amount estimated on the requisition and, therefore, included in the purchase order.

If the difference is less than \$1,000, the purchasing agent can sign off, authorizing the purchase order to be increased by the amount needed. If the difference is more than \$1,000 (which is often the case with the utilities blanket purchase orders at year end), the Assistant Superintendent for Business must sign off, indicating approval to increase the purchase order. Once the applicable approval is obtained, the SAPC can update the purchase order in Finance Manager.

The invoice package is assembled - invoice (on top), receiving report, purchase requisition and all documents related to the requisition process are attached accordingly. The package is stamped (Exhibit C) to indicating the following:

Mathematical Accuracy Verified (initialed by the SAPC)
Approved for Listing on Warrant (date stamped as to when package was assembled)
Assistant Superintendent Approval (initialed indicating his/her approval - see below)
Internal Claims Auditor Approval (initialed indicating his/her approval - see below)

The receiving (yellow highlighted) copy of the purchase order is also date stamped when the package is assembled, which is the same date as which appears on the second line of the stamp detailed above. The amount paid is also written under the date stamp.

The invoice package is submitted to the Assistant Superintendent for Business who reviews and indicates approval by initialing where indicated by the stamp detailed above.

The approved invoice package is returned to the respective SAPC and is then entered into Finance Manager. The entry of the purchase order number brings up the related vendor information. The invoice date is not entered - the system defaults to the date it is being entered into Finance Manager. Payment due dates are also not entered, nor are they set up

when a new vendor's information is first set up in Finance Manager (additional discussion to follow).

Finance Manager will provide a "warning message" if a duplicate invoice number is entered, but will allow it to be entered if the user elects to do so. This situation is not uncommon. The transportation company, for example, may generate one invoice for multiple runs on the same day. Each run might have its own purchase order and, therefore, would need to be processed individually. Duplicate invoice numbers are always researched before entry to ensure that payment was not previously made.

A transaction report, "Checks Waiting to Be Printed" is generated and reviewed. Any necessary corrections are identified and addressed accordingly.

C. Checks are Generated, Approved and Mailed

Every other Tuesday, once all invoices are entered into Finance Manager, the transaction report has been reviewed and all corrections made, the Treasurer is notified that the checks can be generated. Checks are generated for all invoice packages that were entered over the preceding two weeks, not based upon invoice due dates.

EDGE, the check writing software, is used to print the checks on blank paper stock. The entire check is printed by the software; nothing is preprinted on the paper stock. Until used, the blank paper stock is kept in the Treasurer's office which is locked each night; only the Treasurer and the Assistant Superintendent for Business have the key. The Treasurer physically sets up the printer in his/her office and the original checks bearing the Treasurer's signature print there. The Treasurer uses a signature stamp disk which is accessed by a password and is kept in a locked safe for which only the Treasurer and the Assistant Superintendent for Business have the combination. Once printed, the original signed checks are locked in either the Treasurer's safe or a larger safe adjacent to the Superintendent's conference room. They remain locked up until the Internal Claims Auditor arrives. Check copies print on a central printer. The SAPC attaches these to the respective invoice packages.

The Internal Claims Auditor (ICA) is at the District every other Wednesday (the day after the checks are generated). The Treasurer generates two copies of the original warrant (Detail Warrant Report) and provides these, along with the original signed checks, to the ICA. The invoice packages, which now have a copy of their respective check attached, are also provided to the ICA.

The ICA reviews all the invoice packages (claims) for the following:

1. Purchasing policy compliance
2. Ship to address
3. Mathematical accuracy of invoices (also ascertaining that sales tax is not being paid)
4. Agreement of purchase order details to invoice details
5. Verification that the claim has all the required approval signatures / initials

6. That all required documentation is attached to the claim
7. Verification of proof of attendance for reimbursement of conference-related expenses and that reimbursement for mileage has the proper supporting documentation (both addressed more specifically later in this report)

To assist in the review process, the ICA utilizes a spreadsheet that lists all contracts currently in force and the related pricing.

Once the ICA has completed the review process, he/she will stamp the invoices "Approved *date* Paid" (Exhibit C) and initial where indicated by the stamp affixed by the SAPC (see above), as well as under the check number on both the original check and the check copy which is affixed to the top of the claim. Once all claims have been reviewed, the ICA will complete the Certification of Warrant which is located on the final page of the Detail Warrant Report (Exhibit D).

If upon review the ICA discovers discrepancies and a check must be voided, he/she adjusts the totals (dollar and check count) of the Detail Warrant Report and returns the original check and claims package to the Treasurer who voids the check, writing "VOID" across the face of the check. If a corrected check needs to be generated, the claims package is returned to the SAPC for correction and re-processing, which is generally done on the same day so that the ICA can review and a corrected check can be released. The ICA will examine the physical voided check and initial it accordingly. The Treasurer maintains the physical voided check on file with the related bank statement when received.

If the ICA determines that a check should be held until additional information or clarification is received, the check and claims package is returned to the Treasurer who locks it in the safe until the information is received and the ICA can review it on his/her next scheduled visit. Again, the ICA will manually adjust the Detail Warrant Report to remove that claim/check.

The ICA returns one copy of the signed warrant (he/she retains the other copy), original checks and claims packages to the SAPC. The original checks are fed into the folding machine which prepares them for mailing. The invoice/claim packages are filed according to vendor name. (The files are maintained in alphabetical order.)

The Treasurer gets the copy of the signed/certified warrant. (As a reminder, only the processes pertaining to the General Fund are being detailed here. The ICA reviews claims applicable to all the District's funds, so the Treasurer usually receives several certified warrants.) The Treasurer details all signed warrants on a cover sheet, creating a package accordingly (Exhibit E). The package, along with all others that have been created since the last BOE meeting will be presented to and approved by the BOE at its next meeting. After BOE approval, the Treasurer files the packages in a binder (by fund) with the most recently approved package on top.

Independently, the ICA prepares a report for the BOE which includes a schedule of the warrants audited and approved for payment as well as a list of findings (and the related resolutions if applicable). The cover letter is addressed to the Board President and is given to the Assistant Superintendent for Business for delivery (Exhibit F). The ICA is available for questions should they arise.

D. Bank Reconciliation is Prepared

In accordance with Board Policies Number 1332, the Treasurer prepares the monthly bank reconciliations. All differences, no matter how small are researched and resolved. Checks that are outstanding for more than one year are written off. There is no follow up with the payee. The Treasurer signs the completed bank reconciliation and submits it to a designated third party (currently, the Health and Benefits Coordinator) who performs an independent third party review and indicates such by preparing a memo which is signed and dated. The Treasurer maintains all completed reconciliations in a designated binder.

The BOE also appoints a Deputy Treasurer to act accordingly if the Treasurer is unable to perform the assigned duties.

Transactions that Require Unique Purchasing and/or Cash Disbursements Procedures

Utility Invoices

As described earlier, blanket purchase orders are prepared at the beginning of the year with a total dollar amount that is expected to be sufficient for the entire fiscal year.

Upon receipt of the utility invoices, the SAPC will pull a copy of the original purchase order and attach it to the invoice accordingly. Only current amounts are processed. Prior balances and late fees are only paid after the appropriate research and follow-up is performed. If the invoice reflects an unusually high or low amount of current charges, the SAPC will call the utility company and, if necessary, work with other people in the District to understand and resolve the matter.

Because of the necessity to pay utility invoices on a timely basis, it is often not possible to wait until the regular bi-weekly check run. On a weekly basis, it is determined whether or not an Advance Check Warrant is required. The utility invoices, along with other invoices that fall into the same "timely payment" category, are paid on a separate check warrant and the related checks are mailed without the ICA's review. The claim packages along with the Detail Advance Warrant Report are provided to the ICA on the next scheduled visit and go through the review process accordingly. If irregularities are detected during the ICA review, the appropriate actions will be taken.

Workers' Compensation Invoices

Benetech, Inc. (Benetech) provides workers' compensation administrative services for the District. On a bi-weekly basis, the Treasurer receives an invoice from Benetech along with a

"Check Register" which details on a line-by-line basis the checks that the District needs to generate in order to pay current compensation claims (Exhibit G). It is important to note that although the report is called a "Check Register", Benetech does not generate physical checks, but instead provides "vouchers" supporting each line item detailed. The Treasurer reviews the report's claimant information and verifies the validity of any unfamiliar names.

The designated SAPC individual goes through the report on a line-by-line basis, matching the information to the accompanying vouchers and writing down the District's assigned vendor number for each listed payee. If a payee does not have an existing District vendor number, the designated SAPC individual will research to ascertain the need to add a new vendor (specifics of that process are addressed subsequently). Benetech generally includes a W-9 form for all new payees/vendors.

Once all vendor numbers have been indicated, the SAPC enters the data on a line-by-line basis - no requisitions or purchase orders are prepared. In addition, the invoice for Benetech's services is entered. A Check Register Report is generated and reviewed to ensure accuracy as compared to the source documents.

The check printing process is the same as that for all other vendors with the exception of the check date. Checks are always dated the Friday after the ICA will perform his/her review. (The date coincides with the District's payroll date.) The individual claimant invoice packages, though, consist only of the check copy and the Benetech-generated voucher. The SAPC does not use their standard stamp (Exhibit C) and the package is not submitted to the Assistant Superintendent for Business for review. Benetech's administrative services invoice is processed in the usual manner.

A separate Detail Check Warrant is generated and will include only the workers' compensation checks and the payment to Benetech for services performed. The ICA performs the usual review process, date stamping the claim package and initialing it, the original check and check copy indicating approval for payment. When the ICA returns the approved packages to A/P, they are locked in the Treasurer's safe. They are mailed on Thursday - which will generally result in Friday delivery.

Payments for Conferences and Mileage Reimbursement

Board Policy Number 2320 "Attendance by Board Members at Conferences, Conventions and Workshops" and Policy Number 6160 "Professional Growth/Staff Development" (both adopted June 11, 2001), address BOE and staff attendance at "in-service, pre-service" and other "development programs" and discuss the approval process that must be followed before an individual can attend such a program and have the District pay for the related expenses, either directly or via reimbursement. Per Policy Number 2320, for a Board member, "the authorization...shall be by Board resolution prior to such attendance". Policy Number 6160 indicates that "A conference request form/course approval form must be submitted by the employee and approved by the designated administrator prior to the employee's attendance at such conference..." Administration Regulation Number 6160F, F.1 (adopted February 1, 2001)

provides the actual "Conference Request Form, Claim Form for Conference Expenses" that are to be used to comply with the related policies (Exhibit H).

Administrative Regulation Number 6160R (adopted February 1, 2002) "Professional Development and Conference Attendance/Expense Reimbursement" indicates that "when official travel by personally owned vehicles is made in fulfilling the staff member's professional responsibilities with the District, the mileage payment shall be made at the rate currently approved by the BOE at its Annual Organizational Meeting and/or in accordance with the applicable contractual provisions". Administrative Regulation Number 6160R.1 (adopted February 1, 2001) "Reimbursement of Board Member Expenses" indicates the same directive with the exception of the reference to contractual provisions and adding "Personal mileage expenses incurred are the responsibility of the individual."

Mileage Reimbursement

Each year by resolution, the BOE at its reorganizational meeting (referenced as the "Organizational" meeting in Administrative Regulation Number 6160R) approves the list of District staff that is entitled to mileage reimbursement if in fact they travel to conduct District business (Exhibit I). (This includes staff members who travel between school buildings as part of their workday responsibilities.) The SAPC gets the approved list and generates blanket purchase orders (generally in the amount of \$200 each) for the staff members who will definitely submit mileage for reimbursement throughout the year - directors, administrators, teachers who travel between schools, etc. The list is maintained on file to use as a source document to process additional mileage invoices when received.

When a mileage invoice (Exhibit J) is received, the SAPC will check to see if a mileage purchase order for that staff member exists. If not, after verification that the staff member is on the BOE approved list, one is created. The SAPC will then verify that the mileage invoice is properly approved and will review the information:

1. If the invoice details mileage between school buildings within the District, the SAPC cross-references the miles indicated to the Mileage Chart (Exhibit K) on file.
2. If the invoice details mileage outside of the District, the staff member must attach MapQuest support for the mileage submitted including their calculation to subtract the mileage equal to their normal commute.
3. That the mileage rate used is the proper Internal Revenue Service (IRS) rate for mileage (BOE resolution indicates that the IRS rate is the rate to be used).

Once the SAPC's review process is complete, the mileage invoice is processed in the normal course.

Conferences

Potential conference attendees will prepare a requisition and have it approved accordingly (by school principal, department director or school administrator). A copy of the related information is attached to the requisition. This is often a copy of the registration form, which is completed

but not yet executed. (The preferred method is that the venue be paid directly by the District, but sometimes the registrant pays and is subsequently reimbursed.) The preparation of the purchase order follows the normal course. If it is an out-of-town conference, a purchase order for estimated meals and travel is also prepared. Once approved by the Assistant Superintendent for Business, and if the District is paying directly, the SAPC will process the registration form as a vendor invoice in the normal course. If a hotel is involved and the District will be paying directly, the SAPC will contact the hotel regarding the District's tax exempt status and make arrangements to be invoiced accordingly.

If the staff member is being reimbursed for lodging and meals, reimbursement is net of sales tax and gratuities. No dollar guidelines are used to review these expenses; they must be "fair and reasonable". Upon receipt of the proper documentation, it is processed in the normal course, attaching the purchase order created for estimated meals and travel (see above).

The District also makes use of the software, "My Learning Plan". Only in limited instances, however, is it incorporated into the purchasing and cash disbursements process.

Petty Cash

Board Policy Number 5530 "Petty Cash Funds and Cash in School Buildings" (adopted June 11, 2001) and Administrative Regulations Number 5530R "Petty Cash Funds" (adopted November 1, 2002), address the maintenance of petty cash funds and the approved use and method of disbursement of cash. At the annual reorganizational meeting, the BOE establishes petty cash accounts by school or department, designating the custodian (generally the school principal or the department administrator) and the imprest/fixed amount. This is generally a "rolling" year-to-year resolution; therefore, mechanically a new fund is very rarely established "from scratch". The SAPC will prepare a blanket purchase order for approximately four times the approved imprest amount (which allows for the funds replenishment approximately four times during the fiscal year).

At the end of the school year, the petty cash custodian for each school/department that does not operate during the summer months physically turns in his/her petty cash imprest fund to the Treasurer's office. The Treasurer, in turn, deposits the returned cash into the appropriate bank account. Once the BOE has established and approved the petty cash accounts for the new school year, the Treasurer will withdraw the appropriate amounts and each respective petty cash custodian will pick up and sign for his/her fund.

On an as-needed basis, the petty cash custodian will prepare a reconciliation with cash on hand and receipts totaling the fund's imprest amount. The reconciliation with the attached receipts and related petty cash vouchers is submitted to the SAPC. Each receipt is, in turn, processed as an invoice against the blanket purchase order prepared from the BOE resolution. Replenishment checks are not made out to "petty cash", but to the designated custodian with the words "petty cash" immediately following. Again, the District is exempt from sales tax. All reimbursements from petty cash and all reimbursements to the petty cash fund are made net of sales tax.

Debt Service Expenditures

Per Board Policy Number 1332 "Duties of the School District Treasurer" (last revised January 27, 2014), "the District Treasurer shall perform other specific tasks as follows:b) Pays all authorized obligations of the District as directed, including payments of bond principal and interest".

At the beginning of the fiscal year, a purchase order is generated for each bond/obligation in the total amount of all payments that will be due on that bond/obligation during the coming year. The Treasurer calendars the due dates of all bond payments, both principal and interest. The Treasurer prepares a memorandum to the SAPC which includes all pertinent information pertaining to the payment. Using the memorandum as the source documentation for creating the disbursement transaction (against the established purchase order) and advance warrant (timeliness of payment is of the utmost importance, so cannot wait until the biweekly check run), the Treasurer inputs the transaction into Finance Manager. Although appearing on an advance warrant, no actual check is generated - as noted, these payments are made by wire transfer.

The Treasurer has on-line access to the disbursing bank account and prepares the wire transfer using an established template. On-line security is such that the only field in the template that the Treasurer can change is that of the amount. Fields containing information pertaining to the payee and account information are already populated. The Assistant Superintendent for Business must approve the transaction before it is executed. Both the Treasurer and Assistant Superintendent for Business receive confirmations of the wire transfer once complete.

The claims package, along with two copies of its related advance warrant report (which in most cases details more than this one transaction), is submitted to the ICA for his/her review. (Please refer to the discussion of Advance Check Warrants in the Utilities section above.)

Although the General Fund makes the physical payment, the debt resides on the books and records of the Debt Service Fund. As a result, the Treasurer also needs to provide details of the wire transfer to the Business Manager so that the appropriate journal entry can be made on the books of the Debt Service Fund (coded as Fund V).

New Vendors

When the need arises for a new vendor to be set up in Finance Manager, the person who has "the need" for the new vendor (generally the person who will be preparing the related requisition) will complete a "Request for New Vendor" form (Exhibit L) and submit it to the Purchasing Department. (The vendor name and address is provided in addition to the reason for which the vendor is being created). The new vendor's W-9 information must also be attached (which provides its social security or Federal tax ID number for end-of-year 1099 preparation purposes). The completed form is submitted to the Assistant Superintendent for Business and, once approved, the SAPC enters the vendor information into Finance Manager, which assigns a vendor number accordingly.

Internal Audit Objective and Procedures for the General Process of Purchasing and Cash Disbursements

Objective

Review the District's physical procedures for the Purchasing and Cash Disbursement process, in general, to identify controls and adherence to applicable New York State (NYS) Education Law and to the District's policies and defined procedures.

Procedures

- Review NYS Education Law as applies to purchasing and cash disbursements.
- Review the District's policies and procedures to note compliance with NYS Education Law.
- Interview the staff that participates in the purchasing and cash disbursement transaction cycles. Document our understanding of such.
 - See overview of procedures currently in place
- Two random dates or months were chosen from the following sources and a minimum of two transactions were chosen from the chosen dates or months for test work:
 1. Warrant Book
 2. Claims Auditor Report
 3. General Fund Chase Bank Statement
 4. Accountant's Edge Check Register Report

Three bidding categories were randomly chosen from the Bidding Calendar and one related disbursement from each category was chosen for test work.

One random transaction was selected from an advanced check register.

For each random transaction selected, the following was verified:

- The purchase requisition was appropriately prepared and approved.
- The requisition was reviewed and signed/initialed by the Assistant Superintendent for Business.
- The purchase order was signed and approved by the purchasing agent.
- The receiving report was reviewed and appropriate notation made indicating the goods were received/services performed.
- The vendor invoice was reviewed and the vendor, purchase order number and amount agreed to the purchase requisition.
- Sales tax was not paid.
- The expense was posted to the correct budget account.

- The expense appears to be a reasonable expenditure for the District.
- The requisition date, purchase order date and invoice date are in the proper sequence and appear timely in conjunction with one another.
- The documentation is mathematically accurate.
- If the purchase order amount was adjusted by the purchasing agent, the change amount falls into the acceptable dollar parameters.
- The claim/invoice package was approved by the internal claims auditor and the invoice is stamped and initialed and the check is also initialed.
- The warrant was signed by the internal claims auditor.
- The invoice was paid by the due date and early payment discounts were taken, where appropriate.
- The purchase followed the District's policy in terms of bidding and quotes needed.
- The payee per cleared check image agrees with all documents.
- The disbursement appears on the bank reconciliations as outstanding until the month in which it cleared the bank.

Results

1. Findings as applicable to the District's policies and procedures

Although not within the specific scope of this audit, while reviewing the policies and procedures applicable to the Purchasing and Cash Disbursement process, Board Policy 1338 was reviewed.

- a) The Policy is titled "Internal Audit Policy" (adopted September 11, 2006) and it indicates that "Quarterly reports to the Board of Education are required..." New York State requires "Preparation of reports, at least annually or more frequently as the trustees of board may direct..." Currently, the internal auditor performs a comprehensive review and report on an annual basis.

Recommendation

It is recommended that the BOE review its current policy to determine whether it does in fact want quarterly reports. If so, this should be implemented. If not, the policy should be updated to reflect the annual interval (which is in compliance with current New York State requirements).

- b) Administrative Regulations Number 5420R "Competitive Purchasing of Goods and Services" (adopted October 1, 2002), appears to require several updates and the correction of an apparent omission. As it now exists, the following apply:
 - a. Competitive bidding is required for public works contracts involving expenditures of over \$20,000 and purchase contracts of (material only) of over \$10,000.
 - b. The section addressing Non-Bid Purchases appears to be missing paragraph 2a, which is referenced elsewhere in the document.

- c. Indicates that no quotes are required for purchases of \$250 or less.

Recommendation

Recommendations as applies to the instances noted above:

- a. Competitive bidding thresholds were increased by New York State in 2014. The related Board Policy Number 5420 "Purchasing: Competitive Bidding and Offering" (revised March 24, 2014), reflects the new thresholds of \$35,000 for public works and \$20,000 for purchase contracts, but this related administrative regulation does not and should be revised accordingly.
 - b. The apparent omission of a paragraph 2a should be reviewed and either included or the language referring to it should be modified.
 - c. The District's current operating procedures do not require quotes for purchases of \$750 or less; this administrative regulation indicates the threshold to be \$250 or less (Regulation Number **5410R.1** does, though reference the \$750 threshold). The appropriate revision should be made either to the physical procedure or to the regulation.
 - d. The regulation should be reviewed in comparison to New York State Law as applies to exceptions to the competitive bidding requirements to ascertain that it is in compliance with such.
- c) Administrative Regulations Number 5410R.1 "Procurement Guidelines" (adopted October 25, 2010), indicates the dollar threshold subject to bidding requirements as \$20,000 for all public works contracts and \$10,000 for all purchase contracts for supplies, materials and equipment (see Finding 1b) above).

Recommendation

Competitive bidding thresholds were increased to \$35,000 and \$20,000, respectively, by New York State in 2014. The regulation should be updated accordingly.

2. Finding *as applies to the bank reconciliation*

Checks that are outstanding for periods of greater than one year are written off without follow up with the payees.

Recommendation

It is recommended that payees be contacted in an attempt to identify the reason the check is outstanding and that necessary steps be taken to satisfy payment. New York State has very specific escheat laws (unclaimed funds) which include uncashed/stale checks. Without the proper documentation, checks that are written off can be

classified as "unclaimed funds" and would therefore be required to be turned over to the Comptroller's Office.

3. **Findings** *as applicable to a disbursement to McGraw-Hill Companies paying multiple invoices for textbooks*

- a) One claim package included an invoice for two textbooks for which there was no receiving support.

Recommendation

This claim package was processed by a former member of the SAPC staff. It is a possibility that the receipt was verbally verified, however, there is no indication of such. Again, the review procedures in place should have noted and corrected the omission. The value of the two textbooks is an immaterial amount of \$172.62.

- b) Two claims included publisher quotes that specified the shipping charges: one indicated that the charge should be 7% and the other indicated that total quote included shipping charges. In the first instance, the invoice reflected a shipping charge of 8% and in the second instance, the shipping charge per the invoice was higher than that indicated in the quote.

Recommendation

It is understood that in most cases, since shipping charges are a function of weight and method of shipping, a quote will include only an estimate of the charges. In these two cases, however, there was specific language which appeared to indicate that the shipping charge was a hard quote. Although the dollar difference was not material, it is recommended that in such instances, clarification be obtained before processing the claim.

- c) The invoices in the claims package were dated in the range of June 26, 2015 through September 1, 2015 and all indicate payment terms of "net 30" days. The check date was September 16, 2015.

Recommendation

Even though (as understood during the interview process) the Finance Manager accounts payable module does not accommodate information as to vendor terms or invoice due dates, the District's procedures are such that all claims are paid with the next scheduled bi-weekly warrant (barring any that need further attention as a result of the internal claims auditor's review or those paid via an advance warrant). With that procedure in place, it appears that one or more of the invoices paid with the selected check were not processed on a timely basis. Although it is very possible that the related receiving acknowledgement(s) remained pending,

therefore, delaying payment, we would like to remind the District to be mindful of the importance of timely transaction processing.

4. **Findings** *as applicable to a disbursement to FedEx Office and Print paying multiple invoices*

- a) One requisition was not signed by the applicable school principal.

Recommendation

The District's procedures indicate that the principal or department head must review and sign the requisition which is then, in turn reviewed and signed by the Assistant Superintendent for Business. Even though in this case the Assistant Superintendent for Business did review and sign the requisition, the first procedurally required review was not evidenced nor was its omission noted during the review processes. It is recommended that the procedures in place be followed accordingly.

- b) The invoices in the claims package were dated in the range of December 15, 2015 through February 19, 2016 and all indicate payment terms of "net 30" days. The check date was March 2, 2016.

Recommendation

See above recommendation in Finding 3 c) applicable to McGraw-Hill Companies.

- c) District procedures require that three quotes be attached to the requisition, with the lowest quote automatically used. The claims paid by the selected disbursement included quotes from FedEx Office & Print only.

Recommendation

It was explained that it was the practice to obtain the required three quotes for this type of purchase, but other vendors stopped cooperating in the process because their bids were never the lowest and, therefore, they never were the selected vendor. As it appears that in order to adhere to the District's procedure of obtaining three quotes, wasted time would need to be incurred, it is recommended that language be incorporated in the administrative regulations to address this scenario.

5. **Finding** *as applies to a mileage reimbursement paid to a District staff member*

- a) Although evidence of review is present (the reimbursement rate was updated on the two mileage invoices), the total mileage on each of the invoices is not mathematically correct.

Recommendation

Although the staff member was underpaid by an immaterial amount of \$6.62, it is recommended that the procedure to verify the mathematical accuracy of an invoice be followed regardless of the dollar amount. In this instance, the multiple layers of review in the District's procedures failed to identify and address the error.

6. Finding as applies to disbursement to E-School Data

- a) No requisition was included in the claims package.

Recommendation

It is our understanding that since this vendor's services are used throughout the District, no one single school/department initiated the purchasing transaction and the purchase order is created directly by the purchasing department via instructions from the Business Office. The signed contract, which was properly sourced via IFB under the dollar threshold requirement, was used as the source for the purchase order. It is recommended that this practice of omitting the "requisition step" be reviewed as it can be interpreted as a deviation from Board Policy Number 5410 "Principles of Purchasing" (adopted June 11, 2001) which cites "Requisitions" as a step in the process. If the BOE's intent is that certain vendors or vendor types do not require requisitions, this policy's language should be updated.

- b) The purchase order did not include a signature indicating that the service had been "received". It was explained that this was "an oversight - new people are still learning".

Recommendation

Human error is always possible in any transaction that is not fully automated. Since the Assistant Superintendent for Business reviewed and signed off on the claim package before it was entered into Finance Manager, and the Business Office was source of the instructions to create the purchase order, it is a reasonable assumption that the package would have been "rejected" had the service not been received. It is our general recommendation that all people included in the purchasing process, including reviewers, be mindful of the steps involved; any missing steps should be resolved before the reviewer signs off.

7. Finding as applies to a general review of claims packages

- a) Although in each case it is clear that the instances were as a result of typographical or human errors, it was noted in two cases that documentation dating was incorrect, but no processor or reviewer notations were made indicating

such. In one instance, the claims auditor signature indicated a 2015 date; the Detail Warrant was dated in March 2016. In another instance, the service vendor attached expenditure worksheets showing dates of labor as December 2016; the vendor invoice was dated December 2015.

Recommendation

Again, the incorrect dates were obviously typographical and/or human error and in no manner invalidated the claims package or warrant. It is recommended that in these types of instance, processors or reviewers should be mindful of dating and make appropriate notations if necessary.

Internal Audit Objective and Procedures for Purchasing and Cash Disbursements, as Specifically Applicable to Travel and Conferences

Objective

Review the District's physical procedures for the Purchasing and Cash Disbursement process, as it applies to Travel and Conferences, to identify controls and adherence to the District's policies and defined procedures.

(Although transactions applicable to mileage reimbursements were randomly chosen during our general testwork, the selection and focus here was exclusively limited to travel and conferences.)

Procedures

- Review the District's Policies and Procedures for the purchasing and cash disbursement process as applicable to Travel and Conferences.
- Interview the staff that participates in the purchasing and cash disbursement transaction cycles as applies to this area. Document our understanding of such.
 - See Overview of Procedures Currently in Place
- Request a report showing the detail activity (fiscal year to the date of fieldwork) of the following expense accounts. Randomly select at least one transaction from each account:
 1. A2100.404-00-0540 TRS - Travel expenses
 2. A1310.403-00-0580 B/A Conferences
 3. A1240.403-00-0580 CSA Conferences
 4. A1010.403-00-0664 BOE Conferences
 5. A2100.403-21-0540 TRS - Conferences - MS
 6. A2100.403-90-0172 TRS - Conferences - DW - MUS

For each random transaction selected, the following was verified:

- As per Administrative Regulation Number 6160R, a conference request / approval form was properly submitted by the employee and approved by the appropriate individual prior to the employee's attendance at the conference or other professional development program.
- If a reimbursement is being made, the expenditures paid for the conference were supported by original receipts.
- All reimbursed expenditures are allowable by Board Policy Numbers 2320 and 6160.
- Proof of attendance at the conference is included in the claim package.
- The expense was posted to the appropriate budget code.
- The expense appears to be a reasonable expenditure for the District.
- The documentation is mathematically accurate.

- Claim was approved for payment by the ICA.
- Sales tax was not paid.
- The employee appears on the BOE approved "Mileage Reimbursement List".
- Mileage was paid at the rate fixed by the Internal Revenue Service for business travel (57.5 cents for 2015; 54 cents for 2016).

Results

1. Finding *An employee was reimbursed based upon an incorrect number of miles*

The mileage from Woodhull (WH) to Flower Hill (FH) is 2.4 miles as per the Mileage Chart (Exhibit K). Employee was reimbursed based upon 3.7 miles.

Recommendation

The employee was over-reimbursed by an immaterial amount as a result of human error - the employee and the SAPC simply made a mistake. It is not reasonable to expect that one of the reviewers in the transaction process would have detected the error - unless they also have access to the Mileage Chart. If the District is comfortable with the potential for small errors that are inevitably possible, procedures can remain as is. If not, it is recommended that reviewers be provided with the Mileage Chart and instructed to verify the information accordingly.

2. Finding *In four of the random transactions tested, no Conference Request Form was included in the claim package*

Although each of the four claim packages contained documentation supporting the conference/seminar details and approval by the appropriate individual, the Conference Request Form (Exhibit H) was not completed as required by Policy #6160.

Recommendation

It is recommended that the BOE review Policy #6160, Administrative Regulation #6160F, F.1 and the physical procedures as they currently operate. Either the current procedures or the Policy and Regulation should be updated so that all are in agreement.

Internal Audit Objective and Procedures for Purchasing and Cash Disbursements, as Specifically Applicable to Debt Service

Objective

Review the District's actual procedures for the Purchasing and Cash Disbursement process, as it applies to Debt Service, to identify controls and adherence to the District's policies and defined procedures.

Procedures

- Review the District's Policies and Procedures for the purchasing and cash disbursement process as applicable to debt service.
- Interview the staff that participates in the purchasing and cash disbursement transaction cycles as applies to this area. Document our understanding of such.
 - See Overview of Procedures Currently in Place
- At the present time, the District only has one bond outstanding. The required payments occurred on December 15, 2015 and June 15, 2016. Both were chosen and the following was verified:
 - The purchase order, generated at the beginning of the fiscal year, was in the total amount of the obligations due during the fiscal year - both principal and interest, and that it bears the signature of the purchasing agent as well as the Treasurer who is indicating the original "receipt" of the bond proceeds.
 - The disbursement was posted to the correct budget code.
 - The transaction date agrees to the corresponding debt service schedule.
 - The transaction was approved for payment by the ICA and bears evidence of the review.
 - The advance warrant was signed by the ICA.

Results

1. Finding *as pertains to the process itself*

A basic component of internal control is "segregation of duties". The implementation of the control should ensure that no one person should initiate a transaction, approve the same transaction, record it and reconcile balances involving the transaction. In the current process, the Treasurer initiates the wire transfer *and* posts the transaction to Finance Manager.

Recommendation

The Treasurer does, in fact, prepare a memo to the SAPC to document the transaction. It is recommended that the SAPC process the transaction as it does all others, making sure the claim package is complete, performing the mathematical accuracy review, submitting it to the Assistant Superintendent for Business for review, posting the transaction to into Finance Manager and preparing the (advance) warrant review package for the internal claims auditor.

2. Finding *as pertains to the related journal entry in the Debt Service Fund (V)*

Although the end result of the postings to the cash account in the journal entry is correct, we were not able to inquire as to why the journal entry was structured in that manner - there was a debit and a credit to cash for the same dollar amount.

Recommendation

It is important than more than one individual in the District is familiar with the journal entry process, so that questions can be addressed even when the primarily responsible staff member is absent or unavailable for a given period of time. Although others may know the process and be able to use prior journal entries as a guide, without someone who has knowledge of the actual concepts that support the creation of a journal entry (i.e. knowledge of school district accounting) - internal control is lacking.

Collection and Posting of Cash Receipts

Background

Districts collect millions of dollars each year. Given the nature of "cash" (defined as physical cash, checks, wire transfers and Automatic Clearing House (ACH) credits), there is an inherent risk that funds may be misappropriated. With good internal controls, a district can mitigate the risk of misappropriation and mistakes.

As applies to any cash receipts process, specific controls and procedures should be put in place to ensure cash receipts are properly safeguarded, deposited in the bank on a timely basis, and recorded accurately and timely into the books and records. Separating the key tasks in cash receipts processing is one of the most effective controls to implement; since it is not always possible to split duties between different individuals, another person should be responsible for reviewing cash receipts logs and reconciliations every month to ensure there are no discrepancies.

Education Law Section 2503, which defines the powers and duties of the BOE, requires the District to establish certain policies and procedures concerning District operations. Written policies and procedures help let staff know what is expected of them, help hold staff accountable and assist when there are changes in personnel.

The District's Policy Number 1332 "Duties of the School District Treasurer" (last revised January 27, 2014), touches briefly on the cash receipts function: "...the District Treasurer...Acts as custodian of all moneys belonging to the School District and lawfully deposits these moneys in the depositories designated by the Board..."

Overview of Procedures Currently in Place

Due to the timing of the audit itself and at the direction of the Assistant Superintendent for Business, only the cash receipts procedures (or portions thereof) that physically occur in the District offices (administration building) are being addressed and discussed here. It is important to note that all cash, regardless of where received, is recorded into Finance Manager by the Treasurer.

Mail is opened by the Secretary to the Assistant Superintendent for Business. All checks are given to the Business Manager who determines and notes the appropriate account code and fund on the remittance stubs or the checks themselves, logs them in the cash receipt log (Exhibit M) and submits them to the Treasurer.

The Treasurer prepares a deposit slip for the group of checks to be deposited, logs into the District's bank account via the internet and using the scanner provided by the District's bank, deposits the checks. No endorsement is necessary. The bank provides the total of the checks scanned; if that total matches the deposit slip, the Treasurer "submits" the deposit. A bank scan receipt is printed. This receipt is attached to the deposit slip, the checks (coded by the Business Manager) and the accompanying support, creating the "cash receipt package".

Using the cash receipt package, the Treasurer posts the cash via the Cash Receipts module of Finance Manager. If the receipt is in payment of a District generated billing, the Accounts Receivable module will be used instead. A spreadsheet, essentially a cash flow report, is also updated. The cash receipt packages are maintained on file. The Treasurer keeps the current year's packages as well as those of the prior year in her office. Older packages are maintained in storage.

If physical cash is received, which is almost never the case, the person would be given a cash receipt and the cash would be placed in the locked safe (under the Treasurer's desk) until the next scheduled courier pick-up. (Only the Treasurer and the Assistant Superintendent for Business know the combination to this safe.) In some instances, the Treasurer might physically make the deposit herself. The Treasurer will use the deposit slip receipt to post the transaction to Finance Manager.

The District courier goes to the bank twice per week - on Tuesdays and Thursdays. The courier picks up deposits from the individual District buildings/departments and enters the pickups in a log book he/she maintains. (Account specific preprinted deposit slips have already been prepared by the designated individual at the school.) The courier brings the bank validated deposit slips/receipts back to the originating individual at the school/department. The originating individual sends a copy of the deposit slip along with the necessary supporting information to the Treasurer via interoffice mail so that the transaction can be entered into Finance Manager. (The Treasurer spot checks the courier's log book to make sure all appropriate parties are signing and if they are not, appropriate research is done.)

Every other day, the Treasurer will log onto the Statewide Financial System (SFS) website to see if any state aid was wired to the District's account. If a wire took place, the Treasurer will print out the transaction information and submit it to the Business Manager, who in turn will enter it on the cash receipts log, indicate the fund and appropriate account code and return it to the Treasurer for entry into Finance Manager. All wires are sent to the general fund operating account; if they properly belong to another fund, the Treasurer executes a wire transfer accordingly. The bank also sends a direct notification of incoming wires to both the Treasurer and the Business Manager.

(Other types of cash receipts including but not limited to those pertaining to the school lunch program, vending machines and credit card settlements involve their own specific procedures which initiate at the school building level and are therefore not detailed here.)

After all the month's transactions are posted, using the District's on-line access to their bank accounts, the Treasurer prints the bank statements. The bank reconciliations are prepared in Finance Manager. All accounts are reconciled to the penny. If any bank fees appear on the statements, the Treasurer contacts the bank and has them reversed. Outstanding checks are reviewed and if dated one year ago or more, are written off. In general, no follow-up is performed before they are written off.

The Treasurer also prepares the monthly Treasurer's report. This report along with the bank reconciliations, is signed and submitted to the BOE for their approval.

In addition, a person independent of the cash receipts and disbursements process (currently, the Health Benefits Coordinator) reviews the bank statements, bank reconciliations, Treasurer's reports and trial balances. Once reviewed, a memorandum documenting the review is prepared, signed, dated and submitted to the Assistant Superintendent for Business. This memorandum is maintained on file with the bank reconciliations. Periodically, the Business Manager cross-references the cash receipts log to the bank statements as an additional review (color coding deposits on the bank statement to indicate they match the log).

Internal Audit Objective and Procedures for Cash Receipts (physical process occurring in the District Offices)

Objective

Review the District's physical procedures for the Cash Receipts process, to identify controls and adherence to applicable NYS Education Law and to the District's policies and defined procedures.

Procedures

- Review NYS Education Law as applies to Cash Receipts.
- Review the District's Policies and Procedures to note compliance with NYS Education Law.
- Interview the staff that participates in the cash receipts transaction cycles. Document our understanding of such.
 - See Overview of Procedures Currently in Place
- Two random bank statements were selected using auditor judgment and eight deposit postings were selected for testing. In addition, each tab of the cash receipts log was reviewed and using auditor judgment, eighteen cash receipt line items were selected for testing.
- For each random transaction selected, the following was verified:
 - The cash receipt was detailed in the cash receipt log if received at the District office or via wire transfer.
 - The appropriate account code and fund designation was assigned.
 - The information detailed in the check package agrees to the scanned deposit ticket and Finance Manager cash receipt posting, accounts receivable posting or journal entry, depending upon applicability.
 - For deposits made by courier, the information on the deposit slip receipt agrees to the supporting documentation and the Finance Manager cash receipt posting.
 - That the cash receipt appears to be of a reasonable nature for the school district.
 - If the receipt is grouped with others, that the deposit slip is mathematically accurate.
 - That the deposit agrees with the applicable bank statement.
 - The bank reconciliation and related Treasurer's report is signed and dated by the Treasurer.
 - That the independent review memorandum has been prepared, signed and dated.

Results

1. Finding *as pertains to the District's policies and procedures*

Unlike as pertains to the purchasing category, New York State does not specify criteria for cash receipts other than the requirement to establish policies and procedures concerning District operations. Other than the broad information included in Board Policy Number 1332 Duties of the School District Treasurer, the District does not currently have a cash receipt policy nor written regulations or procedures as applies to this process.

Recommendation

It is recommended that written policies and procedures be put in place. As previously noted, this assists the staff in understanding their responsibilities. It also provides documentation to assist the District in the event that the staff member responsible for the process is not available on a long term basis, or is no longer employed by the District. The District drafted Revenue and Cash Management Regulation Number 5570R in response to the 2006-2007 Internal Audit; this document can be used as a starting point in the implementation process.

2. Findings *as pertains to the process itself*

- a) The Treasurer spot checks the courier log book to verify that pick-ups occur and that all required signatures are present. There is no review to ascertain that all recorded pick-up amounts match the deposits reflected on the respective bank statement.

Recommendation

Although one would assume that the designated person at the building or department would follow up if they did not receive a deposit slip receipt for a deposit package that the courier picked up, an independent reconciliation, either monthly or on a random basis, would serve as a review and an additional control.

- b) Checks received in the mail by the Secretary to the Assistant Superintendent for Business are not endorsed "For Deposit Only" before being submitted to the Business Manager for account coding and posting to the cash receipts log.

Recommendation

Although the scanned deposit process does not require endorsements, doing so provides a control/safeguard that a misplaced check/a check not making its way to the deposit scanning step of the transaction process cannot be fraudulently cashed or deposited.

- c) The cash receipts log book (Excel workbook) records up to three months of receipts on the same tab.

Recommendation

Each month should be maintained on its own tab which serves to allow for quicker research and reconciliation.

3. Finding *as pertains to apparent time lag between the date cash receipt is entered into log book and the date it is deposited*

In seven of the cash receipts selections tested, time lags of between seven days and over one month were noted.

Recommendation

It is understood that time lags can be as a result of different scenarios:

1. The scan/deposit process is not performed daily.
2. The nature of a check and the proper account coding may require some research.
3. The cash receipt may require BOE approval before the District "takes possession" via a deposit. In addition, although BOE meetings take place on a regular basis, they are less frequent during the summer, which can also cause a time lag.

Even in light of the above, it is in the District's best interests to deposit funds as quickly as possible. It is recommended that cash receipts procedures be established to include such particulars as time parameters. (Four of the instances involved checks in excess of \$10,000 each.)

4. Finding

In one instance, it was noted that a check physically received in the District offices was not recorded in the cash receipts log book.

Recommendation

As previously noted, human error is always possible in processes that are not fully automated, and as such, there is no specific recommendation for such instances.

Journal Entries

Background

A journal entry is defined as "the recording of financial data pertaining to business transactions in a journal such that debits equal credits. Journal entries provide an audit trail and a means of analyzing the effects of the transaction on an organization's financial position".

In practice, the District must record journal entries when a transaction is not recorded by means of a Finance Manager module. (Thus far, this report has discussed the Purchasing and Cash Disbursement transaction cycle as well as the Cash Receipts transaction cycle. By entering the transactions into these respective Finance Manager modules, the appropriate transactions are recorded.)

In general, journal entries fall into two basic groups:

1. Those that are made on a periodic basis, where the format of the entry remains the same, just the dollar amounts will change from period to period - "standard journal entries".
2. Those that are unique and are needed to record or correct a specific transaction - "non-standard journal entries".

("Top-side" journal entries are a third, less common group and consist of those entries made for reporting purposes only and not recorded in the actual books and records. The District does not make "top-sided" entries.)

The very nature of journal entries (specifically the fact that they have the potential to affect any and all account codes as well as the fact that they are not dependent upon an automated transaction cycle) requires a set of policies and procedures which provide a solid framework of internal controls.

Overview of Procedures Currently in Place

The Business Manager is responsible for recording the District's journal entries. The same basic procedure is followed for all journal entries, regardless of the dollar amount or type:

1. The journal entry is posted and a journal entry report is printed.
2. The Business Manager signs the report.
3. The journal entry source documentation is attached to the journal entry report.
4. The package is submitted to the Assistant Superintendent for Business, who also signs the report indicating it has been reviewed and approved.
5. The package is scanned to an electronic file.
6. The hard copy of the completed package is maintained in an annual binder.

The Business Manager is made aware that journal entries are necessary. The sources include, but are not limited to:

1. There is a list of standard journal entries which need to be recorded each fiscal year, in the specified month (Exhibit N) using the appropriate supporting documentation to determine the dollar amounts to be used.
2. Transactions that were posted via Finance Manager modules require correction - for example, a purchase order may have been created using an incorrect account code or a cash receipt may have been posted using the wrong account code.
3. Board approved budget transfers need to be recorded.
4. The annual external audit identifies adjustments that need to be made.

Sequential journal entry numbers are assigned by Finance Manager. There are two different numerical series which reset each fiscal year:

- Regular journal entries which begin at number 1
- Budgetary journal entries which begin within the 600 "numerical series"

If an error is made when making a journal entry, the entry's details can be deleted, but the journal entry number cannot be re-used. This causes gaps in the numerical sequence.

The Business Manager also makes "temporary journal entries" throughout the year. Once the information is finalized, it is submitted to the Assistant Superintendent for Business for approval. This example was provided:

In January, the Business Manager becomes aware that a grant is due to be received in June in the approximate amount of \$1.4 million. In January, a temporary journal entry is posted to the month of June in the amount of \$1.4 million. This is recorded so that the financials reflect at least a reasonably close estimate to what will be the result at year end.

Once a fiscal year is closed in Finance Manager, it cannot be re-opened. As a result, the fiscal year (which ends June 30) is kept open until October so that any adjustments that arise via the external audit can be posted to the proper year.

When the fiscal year is closed, the journal entry book is closed as well.

Internal Audit Objective and Procedures for Testwork on Journal Entries

Objective

Review the District's physical procedures for recording Journal Entries to identify controls and adherence to the District's policies and defined procedures.

Procedures

- Review the District's Policies and Procedures for the recording of Journal Entries.
- Interview the staff that participates in the Journal Entry process. Document our understanding of such.
 - See Overview of Procedures Currently in Place.
- Request a report generated from Finance Manager that lists all Journal Entries in sequential number order (both regular and budgetary entries). Using auditor judgment, 7 regular Journal Entries were randomly chosen and 3 budgetary Journal Entries were randomly chosen for testwork.
- For each Journal Entry chosen the following was verified:
 1. There are supporting documents which indicate the reason for the entry, the applicable account codes and dollar amounts.
 2. The Journal Entry was signed by the Business Manager and approved by the Assistant Superintendent for Business.
 3. The substance of the Journal Entry and supporting documentation appears appropriate to the operations of a school district.

- 1. Finding** *again, although not specific to the Journal Entry test work, it was noted that the check date for the \$25 donation was June 8, 2015 and the memo directing it to be deposited was dated October 26, 2015*

The supporting documentation indicated that the check was mailed to one of the school buildings; the school, in turn sent the check to the District office with an accompanying memo.

Recommendation

Although it is not possible to ascertain when the check was received by the school, the check date can be reasonably used to approximate such. In conjunction with the recommendation made in the cash receipts testwork, policies and procedures should be put in place to deposit checks as soon as reasonably possible.

- 2. Finding** *the source document for a budgetary Journal Entry is not a signed/authorized copy; it also indicates an account code with an accompanying description which appears to be incorrect*

The source document is pages 2 and 19 of a Proposed Budget for a Federal or State Project FS-10. It is not signed by the preparer and, therefore, on the surface does not appear to be a final copy. In addition, the breakout of the project costs/account codes includes an amount for "code 46 - travel expense". The budgetary Journal Entry posts the indicated amount to "code 460 - software". It is noted that the software code appears correct (travel expense does not seem to apply), but there are no notations acknowledging that the two do not appear to agree.

Recommendation

The documentation attached to the Journal Entry report should always be the final version (signed and/or authorized). In addition, by signing off on the report, both the preparer and the reviewer are indicating that the Journal Entry is in agreement with the supporting documentation. If any discrepancies are detected, they should be followed up on and noted accordingly. In this case, as noted, it is very likely that the journal entry posted to the correct account and the error was on the supporting documentation, however in the absence of any notations, it appears that a discrepancy exists.

- 3. Finding** *the report for one of the "regular" journal entries selected was not signed by the Assistant Superintendent for Business*

The reason that the Journal Entry was not approved may be as a result of the timing of the test work - the Journal Entry date was June 15, 2016 and internal audit test work occurred on June 20, 2016. Per the system narrative, review and approval occurs after the Journal Entries are posted, and as such, this instance does not appear to indicate an exception.

Recommendation

It is generally important for policies and procedures to be put in place as applies to Journal Entries. The procedures should include a timeframe within which a journal entry is required to be approved. In the absence of such (and in the current instance where the Business Manager is unavailable for an extended period of time) there is the potential for unapproved Journal Entries to exist in the District's books and records.

- 4. Finding** *in general, follow up questions about the journal entry process and related Finance Manager reports that would normally have been directed to the Business Manager could not be addressed by any other staff member during the Business Manager's extended absence*

Although the Treasurer has the ability to figure out how to record some journal entries by looking at similar ones and "mirroring them" while applying the applicable information, he/she does not have an understanding of the fundamentals behind the journal entry and would not be able to record one if there was no similar one to follow. The Assistant Superintendent for Business although responsible for the review and approval of the journal entries posted by the Business Manager is relatively new to the position and does not yet have the knowledge and background to physically prepare and post journal entries herself.

Recommendation

It is always of the utmost importance that should a person not be able to fulfill their job responsibilities, at least one other staff person has the ability to fill in for them. In addition, all job functions should be documented in narrative form. Without these forms of backup, an integral component of the District's operations will not function effectively and a component of internal control is lacking. (It is important to note that a knowledgeable consultant was retained by the District to perform the functions of the absent Business Manager and all reporting requirements were successfully met.)