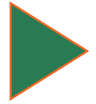


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Control Cycle Audit of

Purchasing, Claims, Accounts Payable and Cash Disbursements



WASHINGTONVILLE CENTRAL SCHOOL DISTRICT

Washingtonville Central School District
52 West Main Street
Washingtonville, NY 10992

March 28, 2020



To the Audit Committee
Washingtonville Central School District
Washingtonville, NY

We have performed a review of the internal controls of the Purchasing, Claims, Accounts Payable and Cash Disbursement functions. We obtained an understanding of these internal controls by inquiry, observation and the inspection of documents and records. Our review included: tests on invoices; vendor listing; purchases orders; cancelled checks; bank reconciliations; and the policies and procedures applicable to these functions.

This consulting engagement was conducted in accordance with Statements on Standards for Consulting Services as issued by the American Institute of Certified Public Accountants Management Consulting Services Executive Committee. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described either for the purpose for which this report has been requested or for any other purpose.

Our procedures consisted of a review of financial reports and documentation as well as interviews with pertinent District personnel. We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. It should be noted that the comments herein may be critical by nature and do not include the many strengths inherent within the District.

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

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Rochester, New York

BACKGROUND:

The Washingtonville Central School District (District) is located in Orange County and has a total enrollment of approximately 4,100 students. The District utilizes five educational buildings. During the period under review (July 1, 2019 – January 31, 2020), we examined the procedures and related internal controls for processing transactions related to payables and internal disbursements through the District's various funds, including the general fund, cafeteria fund, federal fund, and capital fund.

OBJECTIVE:

The objective of our audit was to evaluate the internal controls over the Purchasing and Disbursement processes at the Washingtonville Central School District.

AUDIT SCOPE, PROCEDURES AND FINDINGS:

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard the assets of the Washingtonville Central School District. The Audit Committee of the District selected to review the Purchasing and Disbursement processes. As a result, our testing was limited to this area.

In performing our review of the purchasing, claims, accounts payable and cash disbursements functions of the District, we started by obtaining the disbursements for the General Fund (excluding payroll transactions) in electronic form for the audit period chosen. Total expenditures for the audited period were approximately \$14 million.

Various analytical procedures (i.e. gap detection, duplicate analysis, etc.) were performed on disbursement data provided by the District. The results of these analytical procedures were evaluated to determine our sample selections. For the sample selection, we examined invoices, purchase orders, claim forms, purchase requisitions and other related documentation. We also reviewed cancelled checks, bank reconciliations and evidence of the claims auditor's authorization.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Purchase Orders, Requisitions and the Purchasing Agent

- Reviewed procedures established for the initiation, approval and use of purchase requisitions.
- Reviewed purchase order files and schedules of claims to determine the extent to which open purchase orders are used and the effectiveness of the controls.
- Verified purchase orders can only be initiated based on an approved requisition.
- Reviewed the District's files and the purchasing policy to determine the extent to which the bidding process is utilized.
- Reviewed a sample of the current year's purchase orders to confirm that they are reviewed by the purchasing agent and whether signatures and dates are legible.
- Inquired if the District limits its use of confirming purchase orders (issued purchase order after the item is purchased) to emergency purchases.
- Examined blanket purchase orders to determine if they have a fixed monetary limit and confirmed that associated expenditures did not exceed the amount of the purchase orders without proper authorization.
- Identified vendors with a significantly high amount of disbursements. For a sample of these vendors, we inquired as to the nature of the services they provide and whether their pricing is determined by a bid or state contract.

FINDINGS:

The controls over the Purchase Orders, Requisitions and Purchasing Agent procedures are operating effectively with the following exceptions noted:

1. During discussions we had with staff to document and evaluate the District's purchasing procedures, we learned that the Purchasing Agent, at times, will approve purchase order requests that have been received by the various departments and/or school buildings but then subsequently change the vendor with whom the order is placed. This change would often be made manually by crossing out the vendor name on the purchase order and writing in the substitute vendor. Therefore, the authorized vendor in the District's accounting system is different from the vendor used to actually place the order.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Purchase Orders, Requisitions and the Purchasing Agent (Continued)

This practice is inappropriate for a number of reasons. First, the invoice received related to the order will not match the vendor in the accounting system. Second, the items being ordered may not be identical when placed with a different vendor, resulting in the requestor not receiving what was actually ordered. Finally, this practice results in the Purchasing Agent making decisions regarding the suitability or appropriateness of goods being ordered that extend beyond the typical responsibilities of a purchasing agent and the requirements of the District's procurement policy.

RECOMMENDATION:

We recommend that changes made to purchase orders be properly reflected in the accounting system in order to create an accurate record of the requested purchases. When a change of vendor is required, the original request should be canceled and a new requisition should be created using the updated vendor data. Manual changes to purchase orders that fail to properly update the system with accurate vendor data should be avoided.

MANAGEMENT'S RESPONSE:

District management implemented the following procedure:

If an order is to be changed prior to creating a purchase order, the requisition will be declined and returned to the requestor. The person creating the requisition will then enter a new and updated order. This process will end any manual changes to purchase orders because the purchase order will not be finalized and created until an order is accurate.

2. The duties of the Purchasing Agent include approving new purchase orders and, at times, processing increases to the authorized limits for existing purchase orders. During the course of our review, we learned that the Purchasing Agent is also, at times, accepting/receiving deliveries of orders that are shipped to the District Office. This practice represents a control weakness because the function of approving purchases is not adequately segregated from the function of accepting/receiving the products ordered.

Also, we learned that many of these orders are related to a central store of supplies that the Purchasing Agent has established to fill requests throughout the District. Items are purchased in bulk and distributed from the central store to school buildings and departments as requests are made. Benefits of this practice include a reduced number of purchase orders issued to vendors for these goods and cost savings from purchasing these items in bulk. However, this practice also appears to require a substantial amount of the Purchasing Agent's time to operate.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Purchase Orders, Requisitions and the Purchasing Agent (Continued)

RECOMMENDATION:

We recommend that the District ensure an adequate segregation of duties exists between the person responsible for authorizing purchases and the individual who receives and approves deliveries of products ordered. Also, we suggest the District examine the current practice of maintaining a central store of supplies to determine whether the potential savings is sufficient to justify the required time spent by the Purchasing Agent to maintain this operation.

MANAGEMENT'S RESPONSE:

District management implemented the following procedure:

Purchase order increases are to be approved by the Asst. Supt. For Business prior to any data entry into the computerized system. Only increases up to 10% of the total order can be done. Any increase over 10% will require a second requisition to be entered by the original requestor. In addition, the orders for supplies in central supply will now be received by the custodians in the high school. This will allow for an internal control over ordering and receiving.

District management is in the process of restructuring the business office and will include a change in how central supply is managed.

3. During our review, the Purchasing Agent indicated that it is not uncommon for her to drive around town to various businesses to make purchases of requested items for departments and/or school buildings. The motivation for this practice is her belief that she can make these purchases in a way that saves the District time and/or money. While that may be true for certain purchases, it also raises questions about whether this is the most effective use of her time and the potential risks associated with these trips. For example, there is an increased risk that the Purchasing Agent could experience an injury while carrying the items purchased, or be involved in a motor vehicle accident while making these trips. This is a practice we do not typically observe in other school districts we work with.

RECOMMENDATION:

We suggest the District evaluate the Purchasing Agent's practice of personally making trips to local vendors to fulfill requests received from various departments or school buildings. Consideration should be given to the required time to complete these trips and the increased risks associated with this practice. Corrective action based on the results of this evaluation should be taken, as necessary.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Purchase Orders, Requisitions and the Purchasing Agent (Continued)

MANAGEMENT’S RESPONSE:

The Purchasing Agent began assisting the Building and Grounds Department when the Capital Project began in 2016-17. She assisted by doing the local purchasing as needed and this slowly became part of her normal duties.

Beginning in the 2020-21 fiscal year, the Purchasing Agent will no longer be making these local purchases and this duty will return to the Buildings & Grounds department. Although the district wants to utilize local vendors for various supplies, the Buildings & Grounds department will plan ahead for their needs in various projects and thereby reduce the number of trips.

4. In reviewing the Board of Education policy manual, we observed there are policies that outline the responsibilities of various positions, such as the Treasurer, Clerk, Tax Collector, BOE members, and the District’s various auditors. However, we noted that the BOE does not appear to have a policy outlining the duties of the Purchasing Agent.

RECOMMENDATION:

We encourage the District to develop a policy that establishes the role and responsibilities of the Purchasing Agent, similar to the existing policies related for the other various positions outlined above.

MANAGEMENT’S RESPONSE:

District management has requested a sample policy from our attorney and we will work with the Board of Education to establish one in the 2020-21 fiscal year.

5. We noted five purchase orders that were created after the date of the associated invoice. This can be an indication that established purchasing procedures are not always followed and some purchases are being made prior to obtaining authorization from the Purchasing Agent.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Purchase Orders, Requisitions and the Purchasing Agent (Continued)

RECOMMENDATION:

We suggest that the District continue to discourage instances in which purchases are made before a valid purchase order has been issued. This will help ensure that all purchases have been authorized and appear appropriate.

MANAGEMENT'S RESPONSE:

District management will send out the purchasing procedures at the beginning of each school year in order for all staff to be aware of the requirements. This will help to slow the number of purchase orders created after a bill is received.

Claims and Invoice Testing

- Reviewed invoices to determine if the District is taking advantage of discounts offered by vendors.
- Inquired if invoices numbers are entered into nVision to utilize the system's control features that prevent paying the same invoice twice. Performed analytical procedures and testing of specific transactions to identify potential duplicate payments.
- Examined a sample of paid claims for the past year to determine whether receiving reports and/or approval of the invoice are routinely included with the claim.
- Verified invoices are compared to purchase orders and receiving reports to verify prices, terms, etc. prior to payment.
- Verified that the internal claims auditor reviews supporting documentation and authorizes payment prior to checks being issued.
- Verified that purchases are assigned correct budget codes to ensure that transactions are expensed accurately.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Claims and Invoice Testing

FINDINGS:

The controls over the Claims and Invoice area are operating effectively with the following exceptions noted:

1. The District has a business account with Amazon which the Purchasing Agent uses to place a variety of District orders. During our review of these invoices, we noted that the Purchasing Agent often makes manual corrections related to the appropriate purchase order numbers for certain transactions. Given the volume of monthly transactions, these changes are confusing and make it incredibly challenging for accounts payable to reconcile and process the monthly invoice. We also learned that there are credit memos valued at over \$2,000 from this vendor that have not yet been applied/redeemed.

RECOMMENDATION:

We recommend that the Purchasing Agent critically evaluate the manner in which Amazon orders are placed to ensure they are processed accurately and from the correct account in order to eliminate the need to consistently make adjustments to the associated invoices. The outstanding credit memos issued by the vendor should also be redeemed by the District in order to ensure it has received the full amount of credit it is due.

MANAGEMENT'S RESPONSE:

Purchasing from Amazon will be limited, thereby reducing the number of transactions.

2. During our review of expense reimbursements issued to employees for mileage associated with District related travel, we noted that employees often do not submit these timely. We reviewed three payments to employees that covered mileage over a period of three to five months. Based on discussions with District personnel, it is common practice for some employees to accumulate these for a period of time in order to receive a more substantial, if less frequent, reimbursement. Most organizations typically require travel related reimbursements to be processed timely to ensure that they are recorded in the proper period and to allow for more accurate oversight of the propriety of these expenses. However, District Policy #6161 Conference Travel Expense Reimbursement does not establish standards in this regard.

RECOMMENDATION:

We suggest the District consider revising Policy #6161 to establish standards with respect to the timely submission of employee reimbursements for work related travel.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Claims and Invoice Testing (Continued)

MANAGEMENT'S RESPONSE:

District management will take this finding into consideration, request a sample policy from the attorney and determine the proper amount of time to lapse between reimbursements. There is a cost to cutting multiple checks to staff members, so this will be a consideration when creating policy.

3. We noted that the invoice number associated with one expenditure from our sample had not been entered into the accounting software. Failing to enter the invoice number into the system limits its ability to identify potential duplicate payments in the event that the invoice had been previously paid. However, based on our review of expenditure data this appears to be an isolated incident.

RECOMMENDATION:

We encourage the accounts payable clerk to consistently include the vendor's invoice number when entering claims into the system. This will ensure the system's internal controls for identifying and preventing potential duplicate payments can be relied upon to function as intended.

MANAGEMENT'S RESPONSE:

Accounts payable will continue to be diligent when entering data for payments. A review of all payments will be made after they are entered and a comparison between the warrant and the bills will be made. This should alleviate any potential errors or omissions.

4. We noted that the payment associated with one item from our sample was issued for the wrong amount. The check issued represented payment for a number of invoices from the same vendor. One of these invoices had been excluded from the total amount issued to the vendor. The District has inquired with the vendor regarding the status of this invoice. It remained outstanding and the District was making arrangements to issue payment and resolve this matter. Based on the results of our testing, this exception appears to be an isolated incident.

RECOMMENDATION:

We encourage the claims auditor to carefully review and foot the total of all vendor invoices being included in payments for claims to ensure the amount is accurate and consistent with the supporting documentation provided.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Claims and Invoice Testing (Continued)

MANAGEMENT’S RESPONSE:

District management will talk to the Claims Auditor and ask her to compare the totals on the invoices with the check warrant, prior to approving bills for payment.

Cash Disbursement Processing Procedures

- Evaluated the security of the check signing process to determine if the following procedures are being adhered to:
 - The Treasurer keeps the key to the check signing instrument/password secure and does not surrender nor delegate their responsibility to any other individuals. The Treasurer is present and controls the affixing of her signature when checks are run.
 - The check-signing instrument/password is being maintained in a protected area.
 - Checks and the check-signing instrument/password are not available to unauthorized individuals.
 - The check-signature register is being maintained by the Treasurer who records the first and last number of checks run, the date of the run, and the sequential number of voided checks within each run and the signature of the treasurer.
 - Voided or spoiled checks are properly marked and retained.
 - Verified blank checks and other financial stationery are safeguarded against theft, loss or misuse.
- Determined if the District has authorized at least two individuals to sign checks.
- Reviewed cancelled checks to ensure they are not being made out to “cash” and that they are being paid to the vendor represented in nVision. We also verified that the appropriate signatures appear on the checks.
- Reviewed credit card statements to verify the appropriate authorization and monitoring of the use of District issued credit cards, as well as to ensure the reasonableness of the transactions.

FINDINGS:

The controls over Cash Disbursement Processing are operating effectively with no exceptions noted.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Other

- Inquired as to whether or not the District cooperatively bids with other districts to obtain a better price on items.
- Verified the District has established and maintains a list of approved vendors with whom it customarily conducts business.
- Identified any vendors and employees with the same address and ensured that the relationship and associated transactions were appropriate.
- Reviewed consultant contracts to ensure they are signed, dated and the contracts provide the details, dates and costs of the services to be provided.

FINDING:

The controls over this area are operating effectively with no exceptions noted.

CLOSING REMARKS:

We would like to thank the staff of the Washingtonville Central School District's Business Office for their cooperation and hospitality during the audit.