

Syosset Central School District

Internal Audit Report on

Procurement and

Claims Processing

Syosset Central School District
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Board of Education
Syosset Central School District

We have been engaged by the Board of Education (the “Board”) of the Syosset Central School District (the “District”) to provide internal audit services with respect to the District’s internal controls related to the procurement and claims procedures for the period July 1, 2017 through June 30, 2018.

The objectives of the engagement were to evaluate and report on the District’s internal controls pertaining to the procurement and claims procedures and to test for compliance with laws, regulations, and the District’s Board policies and procedures.

In connection with the following procedures, we have provided findings and recommendations for the internal controls related to the procurement and claims procedures. Our procedures were as follows:

- Interviewed key District employees involved in the procurement and claims processing procedures;
- Reviewed the District’s policies, procedures and practices with regards to procurement and claims processing;
- Reviewed the claims auditor’s reports from July 2017 to June 2018 that were provided to the Board to verify that proper documentation and itemization were provided, the payment is for a legal purpose, the transactions was properly authorized prior to approving the invoice for payment.
- Tested a sample of vendors paid in excess of \$1,000 in the current fiscal year to determine whether proper competitive pricing procedures were followed as per General Municipal Law 103(B) and 104(B) and District policies.
- Tested a sample of disbursements from the warrants of all funds and tested for compliance with District policies, proper approvals, mathematical accuracy, appropriate supporting documentation, including but not limited to, invoices and receipts;
- Tested a sample of disbursements related to travel and conference expenditures to verify proper approvals, invoices, purchase orders, and proof of attendance, including but not limited to, attendance certificates and attendance badges;
- Tested a sample of disbursements related to the District’s authorized cell phones to verify proper usage for business purposes and within limits.

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- Tested a sample of vendors paid in excess of \$600 in the calendar year ending 2017 to determine whether an IRS 1099 form was properly issued;

The results of our procedures are presented on the following pages.

Our procedures were not designed to express an opinion on the internal controls related to the procurement and claims procedures, and we do not express such an opinion. As you know, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of any evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board or others within the District at your convenience.

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

Very truly yours,

R. S. Abrams & Co., LLP

R.S. Abrams & Co., LLP
November 20, 2018

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PROCUREMENT OVERVIEW

Based upon our inquiries and observations, we have noted the procurement overview process to be as follows:

- Purchase contracts for aggregate materials, equipment and supplies exceeding \$20,000 are subject to the bid laws and therefore must be advertised for competitive bidding and a contract (if any) awarded to the lowest responsible bidder. If items are found on New York State or County contracts, BOCES contracts, or preferred vendors then competitive bidding is not necessary. Public works contracts (labor and material) involving expenditures exceeding \$35,000 are subject to bid laws. Public works contracts would apply to those items or projects involving labor or both material and labor. Included in this category would be construction, roofing and repair contracts. The District can also award bids based upon best value determination as per General Municipal Law.
- As required by law, normal bidding procedures will be followed in all cases where quantities of like items needed will exceed the total maximum level allowed by law during the fiscal year, and in such other cases that seem to be to the financial advantage of the District.
- No bid for supplies shall be accepted that does not conform to specifications (or acceptable alternatives) furnished unless specifications are waived by Board of Education (the "Board") action. Contracts shall be awarded to the lowest responsible bidder who meets specifications. However, the Board may choose to reject any bid.
- The Board authorizes the District's participation in cooperative bidding for various needs of the District.

Procurement of materials and services

The District requires the following methods of competition be used and sources of documentation maintained when soliciting the procurement of goods and services not required by law to be made pursuant to competitive bidding requirements. These goods and services must be procured in the most cost-effective manner possible and include verbal or written quotations when possible.

No contracts for goods and services shall be made by individuals or organizations in the school that involve expenditures without first securing approval for such contract from the Purchasing Agent.

No Board member or employee of the District shall have an interest in any contract entered into by the Board or the District, as provided in Article 18 of the General Municipal Law.

Article 8 of the Labor Laws applies to any public works contracts such as construction type trades or maintenance trades and requires the payment of prevailing rates of wages to employees.

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Article 8 of the Labor Laws applies when two conditions are fulfilled: (1) a public entity must be a party to a contract involving the employment of laborers, workmen or mechanics, and (2) the contract must concern a public works project.

Article 9 of the Labor Laws applies to building type services such as cleaning and maintenance and also requires the payment of prevailing rates of wages to employees. The District files a *Request for Wage and Supplement Information* form with the Department of Labor that a contractor has been hired and that the contractor was provided with a copy of the prevailing wage schedule.

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COMPETITIVE BID PROCESS

Based upon our inquiry and observation, we have noted the competitive bid process to be as follows:

- The Purchasing Agent has the authority to prepare, advertise and open bids for all purchase contracts, and contracts for public works, when formal competitive bidding is required by *Section 103 of the General Municipal Law*.
- Competitive bids are published in the official newspaper(s) designated by the Board. A minimum of five (5) calendar days is required from the day of advertisement until the day of bid closure.
- For every bid, the District requests the following:
 - *A Non-Collusive Bidding Certification* (a vendor statement attesting to not colluding with other vendors to fix the price);
 - *A Proposers' Certification of Compliance with IRAN Divestment Act of 2012* (prohibits school districts from entering into energy contracts of IRAN);
 - *A Certificate of Compliance* (where no one is related to anyone on the Board - if an individual is related to anyone on the Board, it needs to be disclosed) and
- An affidavit is maintained for the advertisement placed for bids.
- Vendors may request bids via telephone, collect bids at the purchasing department or have them emailed or mailed to them by the District.
- Sealed bids with the bid number printed on the envelope are addressed to the attention of the Purchasing Agent at Syosset Central School District.
- Sealed bids must be received on or before the date and time of the scheduled bid opening. Bids received are date stamped and maintained in the purchasing department until the bid opening.
- Bids are opened at the date and time specified by the District. The bids are opened in the presence of the Purchasing Agent and a designated person.
- Recommendations to the Board are made based on the bids opened. The Purchasing Agent prepares a bid summary and recommendation memo detailing the vendors who responded to the bid, the prices, who was present at the bid opening and a recommendation from the Purchasing Agent based on the bid specifications.

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- The Board shall award the contract for public works and all purchase contracts to the lowest responsible bidder after advertisements for bids where so required by *Section 103 of the General Municipal Law*. In certain instances bids are conducted on behalf of the District by its architect and awarded to the lowest responsible bidder based on the architect's recommendation.

Exceptions to Bidding

Competitive bidding is not required by law for the following situations:

- Emergency purchases;
- Purchases from Government contracts;
- Purchases from preferred or sole sources;
- Professional services;
- Specific food service items exempted from bidding;
- Purchasing cooperatives (organizations that issue bids based on best value determination and/or lowest bid);
- General Services Administration (GSA)-Schedules as allowed by General Municipal Law); and
- Inter-municipal agreements for sharing services with other school districts such as transportation services, repair and maintenance services and equipment and supplies.

Request for Proposal for Professional Services Process

The Board may also determine from time to time that it may be in the best interest of the District to solicit Requests for Proposals for some or all of the following services:

- Legal Services;
- Medical Services;
- Property Appraisals;
- Architectural Services;
- Engineering Services;
- Construction Management;
- Investment Management;
- Claims Management;
- Pharmaceutical Services;
- Advertising Services; and
- Auditing Services (RFP's are required every five years for external audit services).

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Exceptions to Request for Proposal Process

It is within the Board's right to award personal service contracts without solicitation of alternate proposals or quotations; if in the best interest of the subject defined based on some of the following criteria:

- Timely execution of service;
- Continuity of service;
- Confidentiality of service;
- Cost effectiveness of service;
- Confidence in expertise of service; and
- Knowledge of the District's needs.

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QUOTATION PROCESS

Based upon our inquiry and observation, we have noted the quotation process to be as follows:

The District requires the following methods of competition to be used and sources of documentation maintained when soliciting the procurement of goods and services not required by law to be made pursuant to competitive bidding requirements. These goods and services must be procured in the most cost-effective manner possible:

1. Purchase Contracts
 - a. Contracts up to \$1,000: No quotations are required.
 - b. Contracts from \$1,001 to \$5,000: Three written quotes. Each quote should include name, address and telephone number of vendor, name of contact person, and the items to be purchased, specifying quantity, brand name, and model number, the unit price of each item, extended price, and total price of the order. The Purchasing Agent may use three verbal quotes if there is insufficient time for three written quotes.
 - c. Contracts from \$5,001 to \$20,000: A minimum of three written quotes attached to purchase order.
 2. Public Works Contracts
 - a. Contracts up to \$1,000: No quotations are required.
 - b. Contracts from \$1,001 to \$5,000: Three written quotes. The Purchasing Agent may use three verbal quotes if there is insufficient time for three written quotes.
 - c. Contracts from \$5,000 to \$35,000: A minimum of three written quotes attached to purchase order.
 3. Emergencies:
 - a. The Board must pass a resolution declaring an emergency situation. A memo will be attached to the purchase order explaining why there is an emergency situation. Even under time constraints, the Purchasing Agent must try to obtain written and verbal quotes.
- Quotes are obtained by the individual making the requisition for goods and services at the school building.
 - The quotes are attached to the requisition electronically and then forwarded to a principal or department head at the respective building for review and approval.
 - Once the purchase requisition has been reviewed and approved electronically by the principal or department head and then forwarded to the Purchasing Agent. The Purchasing Agent is the final review to determine all the necessary quotes have been obtained before the requisition is converted to a purchase order.

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- Quotations shall be recorded and documented and the following information shall be provided:
 - The name, address, and telephone number of the vendor;
 - The items to be purchased, specifying quantity, brand name and model number; and
 - The unit price of each item and the total price of the order.

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PROCUREMENT PROCESS

Based upon our interviews and observations, we noted the procurement process to be as follows:

- Each building and/or department has a designated employee who is responsible for entering requisitions into *WinCap*. The requestor must contact this individual and if necessary, obtain quotes or locate the items on a bid or state contract. All quotes are attached to requisitions electronically. Once the requisition is entered and all of the quotes are attached, the requisition is forwarded to a building principal or supervisor.
- The building principal or the supervisor reviews the purchase requisition for completeness and for the quotations (if required) and approves it electronically.
- The designated individual at the building forwards the purchase requisition information for approval to the Purchasing Agent.
- The Purchasing Agent reviews the purchase requisition and the supporting documentation for completeness. If the documents are not completed properly, the Purchasing Agent contacts the requestor using the "Refer Back" button. This feature allows the Purchasing Agent to create a note describing the missing information and it is then forwarded back to the requestor.
- The Purchasing Agent also verifies the following before approving the purchase order electronically:
 - The assigned budget codes and the availability of funds;
 - The applicable quotation or bidding requirements; and
 - Compliance with Municipal Law and Board Policies, New York State contract or bid specifications.
- The approved purchase requisition is then converted to a purchase order by the Purchasing Agent. She prints only the vendor copy of the purchase order and mails it to the vendor. Once the item is received, the ordering department logs in to the accounting software and prints a receiving copy of the purchase order. This copy is signed by the principal or supervisor and sent to accounts payable.
- In the absence of the Purchasing Agent and in the event of an emergency the Business Administrator, District Buyer, and Assistant Superintendent for Business can approve the purchase order.

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CASH DISBURSEMENT PROCESS

Based upon our interviews and observations, we noted the cash disbursement process to be as follows:

Once the requestor receives their items, they will print the receiving copy of the purchase order and have it signed by a principal or supervisor. The receiving copy of the purchase order is then forwarded to the accounts payable office. Packing slips are often sent as well. If it is a blanket purchase order the accounts payable department retains the accounts payable copy of the purchase order until the end of the year. Invoices are stamped "received", noting the date, as soon as they are obtained and opened by accounts payable. Invoices and receiving copies of purchase orders are filed in numerical order until they are matched and become part of the voucher package. If the accounts payable clerk does not receive the receiving copy of the purchase order, an email is sent to the requestor inquiring about the items delivered and asking the requestor to send them the receiving copy. Additionally, if an invoice is not received for a receiving copy of the purchase order, accounts payable will reach out to the vendor.

The accounts payable clerk reviews the invoice for mathematical accuracy and investigates any price discrepancies in the invoice and supporting documentation. If the invoice is more than the purchase order amount, the accounts payable department will contact the vendor to ensure there is no error in the invoice or purchase order. They will also confirm with the building that the invoice is correct. If the mistake is on the District's end, the requestor at the building may have to request with purchasing to increase the purchase order amount. The accounts payable clerk then provides the voucher packet back to the purchasing department for the Purchasing Agent to approve the increase. Once signed and approved, the Purchasing Agent increases the purchase order in *WinCap*. If there is a mistake on the vendor's end with the invoice, they will request a credit memo or revised invoice. All correspondence is attached to the voucher package.

The invoice is not paid until the voucher package is complete and reviewed. The contents of the voucher package are as follows:

- Requestor copy of the purchase order (receiving copy to be signed by the principal or supervisor after receiving the goods and then to be forwarded to the accounts payable clerk for processing the payment of the purchase invoice);
- Original invoice;
- Claims form with original receipts attached;
- Copy of vendor bids and quotation (if any); and contracts all kept in the system.
- Copy of the check.

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Once the voucher package has been verified, the accounts payable clerk enters payment information in *WinCap*. The purchase order number is entered into *WinCap* first so the vendor information automatically populates. However, the vendor may have a different remit address so they must verify this information with the invoice. The accounts payable clerk then enters the invoice number in the system. *WinCap* will warn the accounts payable clerk if this invoice has already been paid. Once it has been confirmed that payment has not already been made, the accounts payable clerk will enter the invoice date, dollar amounts and description of goods/services.

The claims auditor reviews each voucher package, stamps the invoice "paid and approved by claims auditor" with the date and signs the summary warrant report.

Every week a warrant schedule is ready to be processed. The Treasurer is notified and required to enter a password into the computer for printing the checks. They close the warrant, make sure it is in balance and verify the amount on the warrant is the same as the batch.

The checks are printed on blank check stock which is maintained in the accounts payable office, which is locked. The blank check stock can only be accessed by the accounts payable clerks. A separate printer is also located in this office which is used solely to print checks.

The claims auditor matches the check with the voucher package, stamps the voucher package "paid" so the checks can then be prepared for mailing.

The approved summary warrant report along with a claims auditor report is discussed with the accounts payable clerk and the Business Administrator before being forwarded to the Board for review and approval.

Voucher packages are filed alphabetically by fund and by check number.

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CLAIMS AUDITOR PROCESS

Based upon our inquiries and observations, we noted the claims processing procedures to be as follows:

- Proves mathematical accuracy of all computations; this also includes verifications of extensions and additions and the recalculation of any discount.
- Determines that charges are not a duplication of items already paid.
- Compares the voucher with the purchase order.
- Determines that the voucher is properly itemized and supported by proof of delivery.
- Ascertains that all required supporting documentation is attached.
- Stamps the invoice during initial review of voucher package. After checks are printed the claims auditor re-reviews the voucher reconciling to the check and then stamps the invoice "paid".
- In the event that the District has authorized travel advances under *Section 77-B of General Municipal Law*, the auditor reviews the written requests for advances for proper authorizations.
- Determines that the official who gave rise to the claim has indicated approval.
- Verifies vendor names, addresses and if the invoice is in excess of ninety days, the accounts payable clerk must provide confirmation to ensure payment has not already been made.
- Any item that is deemed questionable by the claims auditor is sent back to the accounts payable clerk for additional supporting documentation.
- Signs the check warrants. If there are any check amounts being held or voided, it is noted on the warrant report.
- Forwards a separate report to the Board outlining the funds reviewed, the number of checks, the dollar amounts, and the check sequence. Any separate inquiries are also outlined stating what they were. The Board receives this report from the claims auditor on a monthly basis.

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FINDINGS AND RECOMMENDATIONS

Based on our interviews, observations and detailed testing, we provide our findings and recommendations to further strengthen the District's internal controls as they pertain to procurement and claims processing.

It should be noted that these recommendations are provided to assist management in improving the accounting and internal controls and procedures as they relate to the District's procurement and claims processing. It is important to note that our findings and recommendations are directed toward improvement of the system of internal controls and should not be considered a criticism of, or reflection on, any employee of the District.

Governance

Procedure Performed: We reviewed the District's policies, procedures and practices concerning the internal controls related to procurement and claims processing.

Finding: No exceptions were found as a result of applying these procedures.

Procedure Performed: We reviewed the claims auditor's reports from July 2017 to June 2018 provided to the Board to verify that proper documentation and itemization are provided. We also reviewed the claim auditor's reports to verify the payment is for a legal purpose, and the transaction was properly authorized prior to approving the invoice for payment.

Finding: No exceptions were found as a result of applying these procedures.

Competitive Bids and Quotations

Procedures Performed: We tested 5 vendors paid in excess of \$1,000 in the current fiscal year to determine whether proper competitive pricing procedures were followed as per General Municipal Law 103(B) and 104(B) and District policies.

Finding: No exceptions were found as a result of applying these procedures.

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Cash Disbursements and Purchasing

Procedures Performed: We tested 40 disbursements from the warrants for all funds and tested for compliance with District policies, proper approvals, mathematical accuracy, and appropriate supporting documentation, including but not limited to, invoices and receipts.

Finding: No exceptions were found as a result of applying these procedures.

Travel and Conference

Procedures Performed: We tested 15 payments related to travel and conference expenditures verifying proper approvals, invoices, purchase orders, and proof of attendance, including but not limited to, attendance certificate and attendance badge.

Finding: No exceptions were found as a result of applying these procedures.

Cell Phones

Procedures Performed: We tested 5 payments related to the Districts' authorized cell phones to verify proper usage for business purposes and within limits.

Finding: No exceptions were found as a result of applying these procedures.

IRS 1099 Compliance

Procedures Performed: We tested ten vendors paid in excess of \$600 in the calendar year ending 2017 to determine whether an IRS Form W-9 was maintained on file and an IRS 1099 form was properly issued.

Finding: We noted one vendor paid in excess of \$600 in the calendar year was not issued an IRS 1099 form. However, we did note the District was in the process of implementing a new accounting information system, and has procedures in place to ensure 1099s are properly issued.

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CORRECTIVE ACTION PLAN

The District is required to prepare a corrective action plan in response to any findings contained in the internal audit reports. As per Commissioner's Regulation §170.12, a corrective action plan, which has been approved by the Board, must be submitted to the State Education Department within 90 days of the receipt of a final internal audit report.

The approved corrective action plan and a copy of the respective internal audit report should be sent to the following address:

New York State Education Department
Office of Audit Services, Room 524 EB
89 Washington Avenue
Albany, New York 12234