

Elwood Union Free School District

Internal Audit Report On

Purchasing and Related Expenditures

Elwood Union Free School District
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Board of Education
Elwood Union Free School District
100 Kenneth Avenue
Greenlawn, NY 11740

We have been engaged by the Board of Education (the “Board”) of the Elwood Union Free School District (the “District”) to provide internal audit services with respect to the District’s internal controls related to the purchasing and related expenditures procedures for the period July 1, 2022 through March 30, 2023.

The objectives of the engagement were to evaluate and report on the District’s internal controls pertaining to the purchasing and related expenditures 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 purchasing and related expenditures procedures. Our procedures were as follows:

- Interviewed key District employees involved in the purchasing and related expenditures procedures;
- Reviewed the District’s policies and procedures concerning the internal controls related to purchasing and related expenditures;
- Reviewed the Claims Auditor’s reports issued to the Board from July 1, 2022 to February 28, 2023 to verify that proper documentation and itemization were provided, and that no significant or pervasive issues were identified in the District’s purchasing activity and procedures;
- Tested a sample of vendors paid in excess of \$20,000 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 verifying 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 verifying proper usage for business purposes and within limits;
- Tested a sample of disbursements related to the District's authorized credit cards verifying proper usage for business purposes and within limits;
- Tested a sample of vendors paid in excess of \$600 in the calendar year ending 2022 to determine whether an IRS 1099 form was properly issued;
- Performed a comparison of the master vendor file to the master employee file to identify possible conflicts of interest; and
- Reviewed the master vendor file to verify that the master vendor file was complete, accurate, free of duplicate vendors, and up to date.

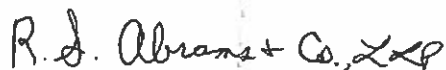
The results of our procedures are presented on the following pages.

Our procedures were not designed to express an opinion on the internal controls related to the purchasing and related expenditures 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
April 18, 2023

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PURCHASING OVERVIEW

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

- Purchase contracts for aggregate materials, equipment and supplies exceeding \$20,000 are subject to the competitive bidding 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, Board of Cooperative Education Services (“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 work 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 needed quantities of like items 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.
- Bids for supplies that do not conform to specifications (or acceptable alternatives), unless specifications are waived by Board of Education (the “Board”) action, shall not be accepted. Contracts shall be awarded to the lowest responsible bidder who meets specifications. However, the Board may choose to reject any bid.
- Rules have been developed by the administration for the competitive purchasing of goods and services. The Board may authorize purchases within the approved budget without bidding if required by emergencies and are legally permitted prior to the purchase.
- 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 to be utilized 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 in the District that involve expenditures without first securing approval for such contract from the Purchasing Agent.

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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. *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 involve 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 at the reorganization meeting. A minimum of five (5) business days is required from the day of advertisement until the day of bid closure.
- Every bid shall contain the certification, properly executed by the bidder, required by *Section 103-d of the General Municipal Law*.
- An affidavit is maintained for the advertisement placed for bids.
- Vendors must physically deliver bids to the 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 business office 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 one other District employee.
- Recommendations to the Board are made based on the bids opened.
- The Board shall award the contract for public works and all purchase contracts to the lowest responsible bidder, however, purchase contracts may be awarded on the basis of best value, as defined in State Finance Law 163.
- Copies of the bid summary are available to the public, and include the following information:
 - Newspaper(s) of advertisement;
 - Dates of advertisement;
 - Date of bid closure;
 - Number of bids received; and
 - Number of vendors notified and the number of vendors who responded to the bid.

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Exceptions to Bidding

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

- Emergency purchase;
- Purchases of surplus or second-hand supplies, materials or equipment from the federal or state government or from any other political subdivision or public benefit corporation within the state;
- Purchases from sole source;
- Purchases of goods, supplies, and services from New York State Office of General Services;
- Purchases when the District procures good or services pursuant to a County contract for which the District is eligible for participation;
- Purchases when the District procures goods or services pursuant to participation in a cooperative bidding consortium;
- Purchases when the District procures goods or services pursuant to a contract led by the United States of America or any agency thereof, any state or any other county or political subdivision therein;
- Purchases when the District procures goods manufactured in state correctional institutions, Industries for the Blind of New York State, and New York State Industries for the Disabled; and
- Professional services.

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 executive of service;
- Continuity of service;
- Confidentiality of service;
- Cost effectiveness of the 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 utilized 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 from \$0 to \$999: Three verbal quotes.
 - b. Contracts from \$1,000 to \$20,000: Three written quotes.
 - c. Contracts above \$20,000: Sealed bids in conformance with *General Municipal Law, Section 103* for award by Board of Education.
 2. Public Works Contracts
 - a. Contracts up to \$999: No quotes required.
 - b. Contracts from \$1,000 to \$10,000: Three verbal quotes.
 - c. Contracts from \$10,001 to \$35,000: Three written quotes.
 - d. Contracts above \$35,000: Sealed bids in conformance with *General Municipal Law, Section 103* for award by the Board of Education.
 3. Emergencies:
 - a. Memorandum may be filed with a copy of the purchase order attached which will explain how the purchase meets the criteria for an emergency exception. The District shall maintain records of verbal (or written) quotes. Documentation must be attached to the purchase order showing that proper notifications were made and approvals were obtained.
- Competitive quotations are compiled by the individual making the requisition for goods and services at the school building.
 - The requisite quotations must be attached to the purchase requisition form, dated and signed.
 - The purchase requisition and the requisite quotations are reviewed and approved first by the building supervisor or department head at the respective building and then by the Purchasing Agent at the business office.
 - Quotations shall be recorded and documented and the following information shall be provided:
 - The name, address, and telephone number of the vendor;
 - Name of the contract person at the company;
 - 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:

- The requestor completes a purchase requisition and obtains the necessary quotes which are then forwarded to the building supervisor or the department head for review and approval.
- The building supervisor or the department head reviews the purchase requisition for completeness and for the quotations (if required), dates and signs the purchase requisition and approves it electronically.
- Once the building supervisor or department head approve the requisition, final approval is needed by the Purchasing Agent. The Purchasing Agent checks within *nVision* daily for requisitions that require final approval.
- The Purchasing Agent reviews the purchase requisition and the supporting documentation for completeness. If the documents are not completed properly, then the Purchasing Agent contacts the requestor for completion.
- The Purchasing Agent also verifies the following before approving the purchase requisition electronically:
 - The assigned budget codes and the availability of funds;
 - The applicable quotation or bidding requirements; and
 - Compliance with General 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, who is responsible for printing out the purchase orders, and providing them to the appropriate vendor.
- The multi-part purchase order has a purchase order number and the copies are distributed as follows:
 - Original – goes to the vendor;
 - Accounting – copy is retained in business office/account payable;
 - Receiving – copy goes back to the requestor of the merchandise or service, then returned signed and dated when order has been received and invoice can be paid; and
 - Requestor – copy goes back to the requestor of the merchandise or service.

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CASH DISBURSEMENT PROCESS

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

The accounts payable clerk receives the invoice from the vendor and provides a copy to the requestor. The requestor sends the signed receiving copy and the copy of the invoice to the business office. Once returned to the business office, the accounts payable clerk ensures that the goods and/or services have been received and the invoice is ready to be paid.

The accounts payable clerk attaches the receiving copy of the purchase order and/or invoices and matches it up to the accounting copy of the purchase order.

The accounts payable clerk reviews the invoice for mathematical accuracy and investigates any price discrepancies in the invoice and supporting documentation. Any increase to the purchase order amount will be handled by the Purchasing Agent before the purchase order is approved and sent.

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

- Accounting copy – accounts payable copy of the purchase order (to be attached to the purchase invoice and the supporting documentation for processing the invoice);
- Receiving copy of the purchase order;
- Original invoice;
- Original receipts attached (if applicable);
- All supporting documentation such as labor or certified payrolls; and
- Copy of vendor bids and quotations (if any).

The accounts payable clerk enters payment information into *nVision* (the District's accounting software). The information entered is verified for the following:

- Purchase order number;
- Encumbered amount;
- Account code; and
- Invoice number, description of goods/services and the amount.

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The Claims Auditor reviews each voucher package, stamps the purchase order and/or invoice “Paid and Approved by Claims Auditor” with the date and their written initials, initials the check, and signs the summary warrant report.

On a bi-weekly basis, the payment schedule is prepared and ready to be processed. The Treasurer is notified once payments are ready to be processed and prints the checks. A signature disk is utilized by the Treasurer, which is password protected.

The checks are printed on blank check stock which is maintained in the business office in a locked cabinet. The blank check stock can only be accessed by the District Treasurer.

The approved summary warrant report along with a Claims Auditor report is discussed with the Treasurer and the Assistant Superintendent for Business before being forwarded to the Board for review and approval.

Once paid, the voucher packages are returned to the accounts payable clerk for filing.

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CLAIMS AUDITOR PROCESS

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

- Verifies mathematical accuracy of all computations on invoices; 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, including appropriate bid and quotation support, if applicable.
- Determines that the official who gave rise to the claim has indicated approval.
- Reviews vendor names, addresses and if the invoice is in excess of ninety days, the accounts payable clerk must provide a vendor history to ensure payment has not already been made.
- Any item that is deemed questionable by the Claims Auditor is returned to the accounts payable clerk or Purchasing Agent for additional supporting documentation.
- Checks are processed by the District after review by the Claims Auditor. Once approved by the Claims Auditor, the purchase order and/or invoice is stamped "Paid and Approved by Claims Auditor", which includes the date and their written initials. The Claims Auditor also signs the check warrants. If there are any check amounts being held or voided, it is noted on the warrant report.
- The Claims Auditor then forwards a separate report to the Assistant Superintendent for Business and District Treasurer for review. Once the report has been reviewed, it is submitted to the Board outlining the funds reviewed, the number of checks, the dollar amounts, and the check sequence. Any separate inquiries are also outlined in the monthly report stating what they were.

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VENDOR MAINTENANCE PROCESS

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

- The Accountant, District Treasurer and Accounts Payable Clerk are the only individuals who have access to add or modify vendors in *nVision*.
- New vendors are only added once an IRS W-9 Form is received and reviewed.
- On an annual basis, the Accountant reviews the vendor master file and inactivates old vendors within *nVision*. Old vendors are deemed to be vendors which are no longer in use by the District for more than three years.
- On an annual basis, the Accountant reviews the vendor master file to remove any duplicate vendors.
- Within *nVision*, only addresses or remittance addresses can be changed for vendors. If any other information needs to be changed, such as a name or tax identification, a new IRS W-9 Form is requested and entered into the system as a new vendor and the old vendor is inactivated.
- District employees are required to complete a disclosure form at their date of hire to inform the District of any relatives or conflicts of interest with vendors utilized by the District.
- New vendors are required to complete a disclosure form to inform the District of any relatives or conflicts of interest with District employees.
- On an annual basis, the Accountant reviews the master vendor file for completeness and accuracy, and compares the vendor master file to the employee file to identify any potential conflicts of interest.

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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 purchasing and related expenditures procedures.

It should be noted that these recommendations are provided to assist management in improving the accounting and internal controls and procedures as it relates to the District's purchasing and related expenditures. 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.

Policies and Procedures

Procedure Performed: We reviewed the District's policies and procedures concerning the internal controls related to purchasing and related expenditures procedures.

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

Procedure Performed: We reviewed the Claims Auditor's reports issued to the Board from July 1, 2022 to February 28, 2023 to verify that proper documentation and itemization were provided, and that no significant or pervasive issues were identified in the District's purchasing activity and procedures.

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

Competitive Bids and Quotations

Procedures Performed: We tested ten (10) vendors paid in excess of \$20,000 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 forty (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 ten (10) payments related to travel and conference expenditures verifying proper approvals, invoices, purchase orders, and proof of attendance, including but not limited to, attendance certificates and attendance badges.

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

Cell Phones

Procedures Performed: We tested five (5) monthly 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.

Credit Cards

Procedures Performed: We tested ten (10) vendor payments related to the District's authorized credit cards to verify proper usage for business purposes and within limits.

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

1099 Compliance

Procedures Performed: We tested ten (10) vendors paid in excess of \$600 in the calendar year ending 2022 to determine whether an IRS Form W-9 was maintained on file and an IRS 1099 form was properly issued.

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Finding: We noted six (6) out of ten (10) vendors selected for testing were issued IRS 1099 forms in excess of the amount paid during the 2022 calendar year.

Recommendation: We recommend the District implement procedures to ensure that IRS 1099 forms are being accurately completed and are reviewed by someone other than the individual preparing them.

Vendor/Employee Match

Procedure Performed: We performed a comparison of the master vendor file to the master employee file to identify possible conflicts of interest.

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

Vendor Master File

Procedure Performed: We reviewed the master vendor file to verify that the master vendor file is complete, accurate, free of duplicate vendors, and up to date.

Finding: Based on our testing performed above we noted the following:

- We noted two (2) duplicate vendor names in the system that were subsequently made inactive as a result of our audit procedures.
- We noted one (1) vendor with duplicate vendor addresses in the system that was not being utilized and was subsequently made inactive as a result of our audit procedures.

Recommendation: We recommend the District implement procedures to review the vendor master file periodically throughout the year to ensure it is complete, accurate, free of duplicate vendors and duplicate vendor addresses.

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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 Regulations §170.12, a corrective action plan, which has been approved by the Board, should 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 submitted using the NYSED Business Portal.