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***Carmel Central School District***

***Accounts Payable and Purchasing***  
***Internal Audit Report***

***January 2009***



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January 11, 2009

Mr. Richard Kreps  
President, Board of Education  
Carmel Central School District  
81 South Street  
Patterson, NY 12563

Dear Mr. Kreps:

We have recently completed our internal audit of the Accounts Payable and Purchasing functions at the Carmel Central School District (“the District”). These functions were recommended for audit in our internal audit risk assessment report.

This internal audit report includes financial and operational information, the scope of the audit, our observations and recommendations, and management’s responses. The audit procedures performed included discussions with the Assistant Superintendent for Business, Acting Director of Facilities, Assistant Business Manager, Accounts Payable Clerk, Procurement Clerk, Claims Auditor and other individuals as necessary to complete our review. We also conducted various tests, reviews, and evaluations in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

Based on our review, we observed that procedures and controls for the procurement process including competitive bids, quotations and system access needed strengthening. To improve control, the District should establish a full-time Purchasing Agent position which will allow for the proper oversight, management and monitoring of the purchasing function. The vendor database needs to be strengthened and the Internal Claims Auditor should be bonded. Lack of segregation of duties exists for the “administration of” and “Finance Manager Permission rights” for business office personnel involved in the accounts payable, purchasing and back-up capacities.

We met with the Audit Committee on January 7th and discussed this report. It is our understanding that Management will respond to the recommendations under separate cover.

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We appreciate the fine level of cooperation provided to us by the District's staff during our audit and look forward to working with them in the future.

Very truly yours,

A handwritten signature in blue ink that reads "David E. Moran". The signature is written in a cursive style with a long horizontal flourish at the end.

David E. Moran  
Accume Partners

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**Background**

As a result of the recently conducted Internal Audit Risk Assessment Update, the Accounts Payable and Purchasing functional areas were identified as a candidate for an internal audit. Accordingly, the Board of Education and Audit Committee authorized an audit of these areas. Our audit was conducted in accordance with the audit standards published by the Institute of Internal Auditors.

**Audit Scope and Objectives**

We performed an internal audit of the Purchasing and Accounts Payable functions and related internal controls. Our internal audit was conducted to assess the level of compliance with procedures set forth by the District's Central Administration. We reviewed and evaluated the policies and practices relating to the District's purchasing, receiving and accounts payable functions. As part of this assessment, we interviewed selected staff, performed tests on selected purchase orders, receiving documentation and expense reports as deemed necessary to understand the process and to determine compliance. During the audit we examined internal controls over the Purchasing and Accounts Payable functions for the period from July 1, 2007 through November 10, 2008.

The audit procedures that we performed included the following:

- Reviewed existing District policies and procedures
- Reviewed the control environment
- Interviewed the District's Assistant Business Manager, Accounts Payable Clerk, Purchasing Clerk, Internal Claims Auditor, District Treasurer, and Purchasing Agent
- Reviewed the District's books and records
- Reviewed the Purchase Order Approval and Vendor Creation/Update processes
- Reviewed the Travel and Expense Reimbursement process
- Reviewed the Finance Manager Master Vendor Database
- Reviewed the Cash Disbursement process
- Reviewed the Internal Claims Audit process
- Reviewed the Finance Manager Accounting & Requisition Manager reports and User Access (i.e. Permission) Rights
- Identified and tested key internal controls in the District processes to ensure:
  1. Adequate segregation of duties exists between Accounts Payable and Purchasing
  2. Bids and bid awards are conducted in compliance with District Purchasing Policy and applicable governing laws and regulations
  3. Appropriate level of documentation is in place to support transactions, and that they are processed in a timely manner, and properly approved
  4. Claims Audit process is established, operating effectively and in accordance with Board Policy and NYSED guidelines

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5. New vendors are approved by the Purchasing Agent and appropriately processed

**Summary of Audit Findings**

We have performed an internal audit of the District’s Accounts Payable and Purchasing processes. Our audit focused specifically on the review of the following areas and key processes within the District. Included is our Audit Rating of the operating and internal control environment of each audit area.

<b>Audit Area</b>	<b>Key Processes / Documents Reviewed</b>	<b>Recommendations</b>	<b>Audit Rating*</b>
<b>Purchasing</b>	<ul style="list-style-type: none"> <li>• Management Oversight</li> <li>• Bid Notice</li> <li>• Bid Proposal Forms</li> <li>• Bid Schedules</li> <li>• Bid Award Letter</li> <li>• Bid Files</li> <li>• Quotes</li> <li>• Payment Process</li> <li>• Board Policy &amp; Regulations</li> <li>• Bid Record Log</li> <li>• Date Time Stamp</li> <li>• Purchase Order Receivers</li> <li>• Packing Slips</li> </ul>	<ol style="list-style-type: none"> <li>1. The District should establish a full-time Purchasing Agent position which will allow for the proper oversight, management and monitoring of the purchasing function.</li> <li>2. Procedures and controls for the competitive bid process should be strengthened; communicated to district personnel and effectively managed by the Purchasing Agent and Business Office personnel.</li> <li>3. District personnel should comply with procurement and payment guidelines and those guidelines should be strictly enforced by management.</li> <li>4. The District should determine whether a conflict of interest and non-compliance with established Board Bid Policy exists with the tree service contract.</li> </ol>	<b>Significant Issues</b>
<b>Vendors</b>	<ul style="list-style-type: none"> <li>• System Vendor List</li> <li>• Vendor Payment History Report</li> <li>• AP Vendor Files</li> <li>• IRS W-9’s</li> </ul>	<ol style="list-style-type: none"> <li>5. Internal controls over the Vendor Master List should be strengthened and vendor records should be complete.</li> <li>6. Management monitoring controls of vendor expenditures should address instances of non-compliance with governing NYSED and General Municipal Law (GML) purchasing and public works contract bidding guidelines.</li> <li>7. Vendors without an IRS W-9 on file should be made inactive in the Vendor Master Database until they provide the necessary documentation.</li> </ol>	<b>Significant Issues</b>
<b>Finance Manager User Access (i.e. Permission) Rights</b>	<ul style="list-style-type: none"> <li>• Finance Manager Permission Rights Reports for the Accounting and Requisition Manager modules</li> </ul>	<ol style="list-style-type: none"> <li>8. Segregation of duties should be improved over the administration of Finance Manager permission rights for business office personnel involved in the accounts payable, purchasing and back-up capacities.</li> </ol>	<b>Significant Issues</b>

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<b>Audit Area</b>	<b>Key Processes / Documents Reviewed</b>	<b>Recommendations</b>	<b>Audit Rating*</b>
<b>Purchase Orders</b>	<ul style="list-style-type: none"> <li>• Outstanding Purchase Orders</li> </ul>	9. The Board should develop a policy requiring follow-up at regular intervals on outstanding purchases orders over 30 days old	<b>Needs Improvement</b>
<b>Accounts Payable &amp; Cash Disbursements</b>	<ul style="list-style-type: none"> <li>• Purchase Order Packets</li> <li>• Claims Warrant</li> </ul>	10. Payments should be processed timely, purchasing and payment transactions need to be adequately documented and the use of confirming purchase orders should be reduced.	<b>Needs Improvement</b>
<b>Travel &amp; Expense Reimbursements</b>	<ul style="list-style-type: none"> <li>• T&amp;E expense Reimbursement Requests</li> <li>• Claim Forms</li> <li>• Request for Approval of Conference Attendance forms</li> <li>• Board Policy</li> </ul>	11. The District should evaluate current procedures for employee “T & E” expense reimbursements to ensure they are effective and that reimbursements are documented in accordance with Board policy.	<b>Needs Improvement</b>
<b>Claims Audit Process</b>	<ul style="list-style-type: none"> <li>• Purchase Order Packets</li> <li>• Claims Warrant</li> <li>• Claims Audit Reports</li> <li>• Board Policy</li> <li>• Bonding requirements</li> </ul>	12. The Claims Auditor process needs to be documented and bonding requirements and reporting requirements per Board Policy need to be adhered to.	<b>Needs Improvement</b>

\* Our classification of audit findings is based on the following **Audit Ratings**:

**Significant Issues**                      Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the District.

**Needs Improvement**                      Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent deterioration and possible losses.

**Adequate/Satisfactory**                      Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings may indicate modest weaknesses that require management's attention.

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**Observations and Recommendations**

- 1. The District should establish a full-time Purchasing Agent position which will allow for the proper oversight, management and monitoring of the purchasing function.**

**Observation:** To improve oversight, management and monitoring of the purchasing function, the District should consider establishing a full-time Purchasing Agent position within the Business Office. The Purchasing Agent is authorized to arrange for the procurement of goods and services through the bid process, authorized State contracts, authorized cooperative purchasing with other schools and New York State mandated sources, or by quotation under the Board guidelines.

Currently, the Board of Education's designated Purchasing Agent is the District's Assistant Superintendent of Business. The Assistant Superintendent for Business is a key member of the management team representing the Superintendent and Board in the management of district financial, physical, material, and human resources. Among other responsibilities, this individual is generally responsible for accounting; auditing; budget development, monitoring, and control; cash flow management; collective bargaining; educational facilities planning and capital projects; emergency/disaster planning; human resource management; information management; insurance/risk management; management of business office; operations and maintenance; records management; transportation and short-term and long-term planning.

Due to these other job responsibilities, the Assistant Superintendent of Business, while knowledgeable in the Board policies and procedures, as well as the governing regulations and laws for school district purchasing practices, is currently only able to provide a cursory oversight of the various functional responsibilities of the District's purchasing function.

**School District Risk and/or Opportunity:** The Board of Education views purchasing as serving the educational programs and the needs of its students by providing necessary supplies, equipment and related services. This is achieved by centralizing the Purchasing function, which the Purchasing Agent is charged with overseeing. The Purchasing Agent is responsible to meet the Board of Education's goal "...to purchase competitively, without prejudice or favoritism, and to seek the maximum educational value for every dollar expended."

The Purchasing Agent, as per Board Policy is responsible for administering all purchasing activities and ensuring the quality and quantity of purchases made by the district are appropriate. The normal duties of a Purchasing Agent, as prescribed by the NYSED Purchasing Manual, is to be responsible for the purchasing of all supplies, materials, equipment, and services for the school district and works subject to the policies and administrative regulations of the Board of Education and is under the direct supervision of the school business administrator. Examples of some of the functional day-to-day duties of a purchasing agent include, but are not limited to, develop departmental policies & purchasing

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procedures and forms to ensure efficient, economical and timely procurement's on behalf of the district; maintain current information for State Contracts and vendors; prepare and participate in obtaining informal quotes and bids; receive sealed bids and be present to review the bid opening process; evaluate submitted sealed bids meet the specifications and are properly considered for acceptance; make formal recommendations to Superintendent and the Board of Education for awarding bids; and also supervise clerical personnel involved in the purchasing process.

**Recommendation:** The District should hire a full time purchasing agent which would allow for proper management attention, participation and oversight to ensure the District is in compliance with Board Policy, governing laws and purchasing regulations. The purchasing agent should report directly to the Assistant Business Manager who reports to the Assistant Superintendent of Business. A similar recommendation was made by the District's independent auditor in his recent memorandum of suggestions dated September 18, 2008.

**2. Procedures and controls for the competitive bid process should be strengthened; communicated to district personnel and effectively managed by the Purchasing Agent and Business Office personnel.**

**Observation:** Internal Audit tested the competitive bidding process for fiscal year 07/08. We tested five competitive bids of the population of twenty-four to ensure they were in compliance with District Board approved Purchasing Policies and applicable governing NYSED law. We reviewed the bid files to ensure that bid proposals had appropriate levels of detail and specifics; bids were properly advertised in the District's officially designated newspaper; sealed bids were date and time stamped, recorded as received, and properly opened; bid analysis and bid award determinations were appropriate and adequately documented; the Purchasing Agent made recommendations to the Board for awarding the bid, and that the Board meeting minutes evidenced their approval of the bid award to the respective vendor. Significant and consistent control deficiencies were noted in the District's competitive bidding process.

In addition to bid files, we observed five invoices above the \$10,000 bid limit for one vendor that were not bid as required. Three of the five invoices have not been paid as of our audit. Since they were not bid, those invoices were not included in our review of bid files. We brought these items to the attention of District management.

Our review of bid files disclosed:

- 4 instances where the bid schedule/record was incomplete. Lacking information included advertised date, # of bids sent, # of bids received, name of newspaper bid was advertised in and the date, and date bid received and/or initials of employee performing the bid certification.
- 4 instances where the bid envelopes were not retained for all bidders.
- 1 instance where the bid was published in a local newspaper and not the Board approved officially designated newspaper.

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- 2 instances where there was no copy of the newspaper notice indicating the bid was advertised as required by Board Policy.
- 3 instances where there was no evidence the bid was published in accordance with Board regulations requiring the newspaper bid ad to be published in the Board officially designated newspaper at least three times and 21 days prior to bid opening date. Of the three instances, we found:
  - Two bids were published for only one date
  - One bid was published for only one week prior to the bid opening date
  - One bid was published for approximately ten days prior to bid opening date
- The current manual date time stamp utilized to record when sealed bids are received does not lend itself to accurate time recording. Interpretation of reading the time a bid is received is not always accurate. The Business Office should utilize an electronic or electric date time stamp to accurately record the receipt of sealed bids.
- The current Bid Record Log form utilized for the opening of sealed bids does not have designated spaces to document the three district employees required, per Board Policy Regulation (#6720-R), to be present at each bid opening, one of which is the Purchasing Agent or his designee. The presence of the Purchasing Agent ensures the bids are opened and recorded in an equitable manner and in compliance with established guidelines and laws.
- Purchasing Exhibit “Methods of Competition to Be Used For Non-Bid Procurements” Exhibit 6700-E.1” does not contain an effective date. All sections, exhibits, etc... of the District’s Policy Manual should reflect an “Effective Date” so the reader can easily determine when the particular item became effective.

***School District Risk and/or Opportunity:*** Documented policies and procedures help to guide staff in times of change and turnover and help ensure that processes are being carried out as intended by the Board and District management. Competitive purchasing policies and procedures are essential internal controls that help ensure all recognized and responsible vendors are given equal opportunity to supply the District, prevent favoritism in selecting vendors, and also help to prevent fraud on the part of the Purchasing Agent. Date and time stamping the sealed bid envelopes immediately upon receipt by the District establishes evidence of receipt and assists in determining if a bid qualifies for consideration. This ensures that no one vendor is given preferential treatment, in terms of time and opportunity, to develop their bid offer.

***Recommendation(s):*** Procedures and controls for the competitive bid process need to be strengthened; communicated to district personnel and effectively managed by the Purchasing Agent and Business Office personnel. The District should notify staff that they may be held responsible for any purchases outside the approved bid and procurement guidelines. The District should ensure:

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- Bid schedule/records are complete. The records should include advertised date, number of bids sent, number of bids received, name of newspapers bid was advertised in and the date and the date bids were received and initial (s) of employee (s) performing bid certification.
- Bid envelopes are retained and they should be time stamped.
- Bids are published in the newspaper designated by the Board.
- Newspaper notices are retained in the bid file.

The Assistant Business Manager, along with the assistance of the Purchasing Agent and the Purchasing Clerk, should perform a thorough review of the District's Board approved purchasing policies as well as departmental procedures and applicable NYSED guidelines and General Municipal Law (GML) to ensure current District policies and procedures are adequate and appropriate for the District. Once the aforementioned review of current policies and procedures has been completed, it is recommended that all affected District personnel be informed of the District's updated purchasing policies, procedures and requirements. Diligent enforcement by the Purchasing Agent, the Purchasing Clerk and support of the Business Office is necessary to ensure compliance with the aforementioned policies, procedures and governing laws.

Current forms and logs utilized in the competitive bidding process should be enhanced and standardized for use by the Business Office. The Bid Schedule/Record form should be modified to allow designated spaces on it for the three district employees required to be present when sealed bids are opened. They should sign their full name documenting their presence when the sealed bids are opened.

Consideration should also be given to the development of a Bid Checklist for inclusion in each bid folder. The checklist should include items that ensure all bid requirements; applicable documentation requirements are complied with, contain appropriate personnel sign-offs for the different steps in the bid processes. This will help to strengthen the internal controls over the bidding process by providing management documentation to better monitor the bid process.

The District should consider purchasing an electric or electronic date time stamp to ensure the accuracy of date and time stamped on bid documentation. The District's Purchasing Exhibit "Methods of Competition to Be Used for Non-Bid Procurements" should be updated to include the effective date. Additionally, bid offers should include a signed Bid Proposal Certification form, as required by law, to certify the bid offer is good, non-collusive, and meets the bid specifications.

**3. District personnel should comply with procurement and payment guidelines and those guidelines should be strictly enforced by management.**

**Observation:** We observed many instances of non compliance with procurement guidelines

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and best practices. Interviews with the Accounts Payable Clerk, the Purchasing Clerk, and the Assistant Business Manager disclosed that there is a consistent problem in getting the purchase order "Receive Copy" from various departments and faculty. We also observed instances where invoice descriptions were weak or nonexistent and some invoices did not include item pricing. We also observed that packing slips were generally lacking in the procurement documentation reviewed. Previously, the level for obtaining quotes was \$100. We observed that most transactions reviewed did not have the required quotes or the quotes did not appear to be adequate. Until management changed the guidelines, staff should have adhered to established limits for obtaining quotes. The limits for quotes were increased.

We attempted to locate furniture related items listed on certain purchase orders, but were unable to locate all items. We observed instances where invoice dates were prior to purchase order dates and instances where PO dates were prior to quote dates. These instances represent non-compliance with the standard procurement process.

**School District Risk and/or Opportunity:** Adherence to laws, Policies, procedures and other guidelines will assure upper management and the Board that the procurement process is working as intended.

**Recommendation:** Procurement guidelines should be strictly enforced. Invoices should not be paid until the District is assured that documentation exists to support receipt of goods purchased. The District should reject incomplete invoices. The Purchasing staff should ensure that quotes are obtained prior to awarding a contract or purchase order. They should review quotes for authenticity and propriety. There should be documentation in the files to support receipt of all items listed on an invoice or the invoice should not be paid. Invoices should clearly indicate what was purchased and should include item pricing. To that end, the District should require that all deliveries be verified and that packing slips and other pertinent documentation be retained for management review and audit purposes.

**4. The District should determine whether a conflict of interest and non-compliance with established Board Bid Policy exists with the tree service contract.**

**Observation:** A cursory review of the Facilities Department Bid Binder, which maintains the competitive bid documentation for all Facilities bids, noted Bid #07-17 was awarded to the sole bidder- Nick's Tree Service in Fiscal Year 07/08 and was not published in the District's officially designated newspaper, the Journal News. A contract extension was recommended and granted for fiscal year 08/09 by the prior Facilities Department Manager. Additionally, the binder contained a Certificate of Liability Insurance that listed Nick's Tree Service's owner as an Additional Insured and the respective legal papers (i.e. the required Non-Collusive Agreement) were signed by the proprietor. The bid was only advertised in a local paper, the Putnam Currier. The proprietor for Nick's Tree Service is an immediate relative of a Facilities Department employee and this may give the impression of a favoritism as the

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competitive bid was not processed in compliance with the Board approved policy and purchasing guidelines and governing laws.

***School District Risk and/or Opportunity:*** Inherent risk exists in that school district assets may not be properly and equitably utilized when circumstances of non-compliance with Board established policies occur. Competitive bidding is required to ensure that bids are awarded in an equitable manner and to the lowest responsible bidder, which is required by law. The opportunity for the misuse of school district assets, meaning taxpayer's funds, exists due to the referenced non-compliance.

***Recommendation(s):*** We recommend the District review this instance of non-compliance and consider re-bidding the service in accordance with established Board policy and purchasing procedures to ensure a proper bid award is granted in compliance with governing laws.

**5. Internal controls over the Vendor Master List should be strengthened and vendor records should be complete.**

***Observation:*** A review of controls over the Vendor Master List showed the authorization, set-up and maintenance of vendor information disclosed a need for improved controls. We noted there was no formal approval process by the Assistant Superintendent of Business, who is also the Purchasing Agent, for new vendors. We were also informed by the Accounts Payable Clerk that there is no QC (Quality Control) process in place to ensure proper set-up and maintenance of Vendor information such as name, address, remittance address, etc., that are inputted to the Vendor Master database in Finance Manager.

A review of the Vendor Listing Report by Vendor Number also showed multiple instances where information such as a vendor's contact telephone number is missing. The report also indicated that many vendors had a PO Box address. Vendors with PO Box addresses should be periodically reviewed by an independent party to ensure legitimacy of vendors.

***School District Risk and/or Opportunity:*** An adequate and effective internal control environment includes basic controls addressing authorizations, documentation and quality control standards. The lack of such controls leaves an organization exposed to fraudulent transactions, misappropriation of funds and a lack of accountability. In a school district, the absence of such controls, specifically for vendors where disbursements of funds are the end result, represents unnecessary risk which can be mitigated by implementation of basic controls.

***Recommendation:*** Internal controls over the Vendor Master List needed to be strengthened. We recommend a thorough review be performed of the vendor set-up and maintenance business processes and the current applicable desk procedures be improved to address the control weaknesses noted. A formal review and approval process should be established over

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new vendors added to the Vendor Master List. A QC process should be established to ensure proper set-up and maintenance of Vendor information such as name, address, remittance address, contact phone numbers, etc., that are inputted to the Vendor Master database in Finance Manager. The QC review should also include a periodic check on the legitimacy of vendors with PO Box addresses.

**6. Management monitoring controls of vendor expenditures should address instances of non-compliance with governing NYSED and General Municipal Law (GML) purchasing and public works contract bidding guidelines.**

**Observation:** A cursory review of Vendor purchases summary for fiscal year 07/08 noted that, on an annual basis, there are instances of vendors that exceeded the established dollar limits stated by NYSED and General Municipal Law (GML) that were not competitively bid and did not have Contracts with the District. No monitoring control exists to detect when a particular vendor is approaching or at the respective purchase contract (i.e. \$10,000) or public works (i.e. \$20,000) competitive bidding limits established by law. Interviews with personnel in Accounts Payable, Procurement and Facilities Department showed they were not well versed or familiar with the dollar limits for bids and quotes indicated in the District's Board approved Purchasing Policy. Additionally, we noted the following:

- One local vendor, Benfield Electric Supply, which does have a State Contract for only purchases of lights and ballasts, had payments totaling \$30,870.54. District personnel indicated no bids and/or quotes were obtained for this vendor. Items other than lights and ballasts were purchased.
- A vendor utilized by the Acting Supervisor of Technology had payments totaling \$24,403.64, however, the Acting Supervisor indicated that he was not familiar with the competitive bidding requirements and, accordingly, no bids were obtained for business with the vendor.
- Several other vendors had payments in excess of the established NYSED and GML limits, and were not competitively bid and do not have a contract with the District.
  - Excel Printing, which has payments totaling \$23,280.00
  - Home Depot, which used to be a State Contract, has payments totaling \$19, 316.15
  - Kamco Supply Co., which has payments totaling \$79,459.71
- Contracts have only recently been centrally maintained by the Business Office. Previously, they were decentralized and maintained by each department. Accounts Payable should have all Contracts on file so they can be reviewed, when necessary, when processing PO's.

**School District Risk and/or Opportunity:** Board approved policies exist to reflect compliance with NYSED and GML for both the competitive and non-competitive bidding requirements, however, there are no monitoring controls in place to ensure the District is in compliance and this provides an opportunity for circumvention of the established limits. Risk of favoritism in selecting a vendor or one that is convenient may potentially lead to the

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misuse of District funds that can be construed by the public as negligence and lack of fiscal responsibility by District officials. Effective monitoring controls are necessary to ensure compliance and fiscal responsibility, especially with governing NYSED and GML bidding requirements.

**Recommendation:** Management monitoring controls of vendor expenditures should be improved to address instances of non-compliance with governing NYSED and General Municipal Law (GML) purchasing and public works contract bidding guidelines. We recommend the District Business Office, specifically the Purchasing Agent and the Assistant Business Manager, develop a management plan to ensure all District personnel are informed of the NYSED and GML competitive and non-competitive bidding requirements. When a particular vendor approaches the bid threshold, effected departments should be notified regarding the need to bid for goods or services. Departments should be notified that purchases beyond the required bid level will not be processed for payment.

A recommended control is to have the Internal Claims Auditor (ICA), who is independent of the Accounts Payable and Purchasing processes, perform a regular periodic review of the Finance Manager Vendor History report to identify potential vendors where competitive bids should be performed. The ICA should refer such situations to the Purchasing Agent and Assistant Business Manager for a determination as to whether or not competitive bidding should occur. Consideration of inclusion of these vendor referrals in the ICA's Board report is recommended.

We also recommend that a District wide accountability review be performed with all departments to identify all contracts and ensure the Business Office has the original purchase and/or public works contracts. The centralization and maintenance of contracts will assist the Accounts Payable and Purchasing Clerk to ensure only items governed by the contracts are paid for with District funds.

**7. Vendors without an IRS W-9 on file should be made inactive in the Vendor Master Database until they provide the necessary documentation.**

**Observation:** We observed that many vendors did not have the required IRS W-9 on file, which is necessary to do business with the District. We were informed that a mailing was done in December 2007 to all vendors requesting them to complete and return an IRS W-9 Tax Withholding Identification Form. The tax identification number and the vendor's certification of it is a required document for any vendor that maintains a business relationship with the District and should be maintained on file. Conversations with the Accountant and the Assistant Business Manager noted that about 200 vendors failed to supply the District with a completed W-9 Tax forms. Mail to these vendors was returned as "undeliverable" by the Post Office. No follow-up was performed by the Business Office on these vendors to determine if the address was correct and/or if the vendor was still performing business with the District.

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The current procedure, which was implemented after the aforementioned mailing of the District, is that business will not be conducted with a vendor unless there is a properly completed Federal IRS W-9 Tax form on file. However, the Business Office failed to make those vendors inactive to prevent their doing business with the District.

**School District Risk and/or Opportunity:** The District can only be fiscally responsible when it ensures that it maintains business relationships with valid going concerns and obtains appropriate documentation for its vendors that it makes disbursements to for goods and services performed on behalf of the District. Opportunity exists for misuse and abuse of District funds when legal IRS documents such as W-9 Tax forms are not provided by a company that provides goods and/or services to the school district.

**Recommendation:** Vendors without an IRS W-9 on file should be made inactive in the Vendor Master Database until they provide the necessary documentation. The Assistant Business Manager should develop a management plan to address the “undeliverable” vendor mailed requests for IRS W-9 Tax forms that ensures proper follow-up has been performed to obtain a good address, and also that no additional business is conducted by the District with such vendors until a properly completed IRS W-9 Tax form is on file. We recommend that the vendor’s status in Finance Manager be changed to “inactive” and that such files be segregated from other active documentation compliant vendor files.

**8. Segregation of duties should be improved over the administration of Finance Manager permission rights for business office personnel involved in the accounts payable, purchasing and back-up capacities.**

**Observation:** A review was performed of the Finance Manager (FM) Permission rights for the Accounting Manager (ACM) and Requisition Manager (RCM) functions for the Assistant Superintendent of Business, the Assistant Business Manager, and personnel responsible for the Purchasing and Accounts Payable functions. Multiple instances were noted where current permission rights either conflict with the employee’s job duties, represent a lack of segregation of duties or they are not necessary for their job functions. The following conditions were noted:

- The Accounts Payable Clerk and Purchasing Clerk both have data entry capabilities for accounting functions to increase purchase orders, to liquidate purchase orders and to void checks.
- The Purchasing Agent has the ability to create and maintain computer generated purchase orders. The Purchasing Agent performs the review and approval of purchase orders and should not have system capability to create and maintain purchase orders which is a function of the Purchasing Clerk.
- The Accountant has data entry capabilities to enter (i.e. create) a purchase requisition. There does not appear to be a business need for this system access. According to the

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Assistant Business Manager, who is the System Administrator, the referenced functionality has never been used and will be deleted.

- The Accountant has two user id's, one for her daily work, and a second one for back-up purposes. The back-up user id contains multiple functionalities for both the Accounting Manager and Requisition Manager modules. Examples of conflicting access is the ability to set-up, increase and liquidate purchase orders; to create and maintain vendor information; to void & reissue checks; to convert requisitions that have final approval into purchase orders; to enter requisitions; and to make changes to and resubmit requisitions that were disapproved.
- The Assistant Business Manager, who is the Finance Manager System Administrator, has various data entry access functionality in both the Accounting Manager and Requisition Manager functions which represents a lack of segregation of duties. Examples of Accounting Manager data entry abilities is to perform budget transfers; to create and generate checks; to create purchase orders; to increase purchase orders; to liquidate purchase orders; to create journal entries; to print and post disbursement checks; to create and maintain vendor information and the ability to void & reissue checks. Her Requisition Manager Data entry access functionality in Requisition Manager includes ability to convert requisitions that have been granted final approval into purchase orders; to create requisitions and also to resubmit disapproved requisitions.

**School District Risk and/or Opportunity:** Good internal controls allow management to appropriately manage its operations and adequately safeguard its resources against errors and abuse. Proper segregation of duties with respect to system access and user rights (i.e. Finance Manager Permission rights) is an integral part of any proper internal control system. The granting and restricting of user access rights to individuals that have a job-related need allows management to mitigate the risk or errors and abuses that may occur or go undetected for a period of time. User access rights, when properly managed, allow an organization to effectively manage its processes and assist in achieving its objectives.

**Recommendation:** Finance Manager Permission rights for Business Office personnel should be modified to ensure adequate separation of duties. Granting of access rights requests and changes to access rights should be approved by the appropriate Department Head or Manager and require a secondary approval of the Assistant Business Manager. Once both approvals are provided in writing the documented access rights request should be given to the System Administrator for updating in Finance Manager. Immediate action should be taken to restrict the Assistant Business Manager's access to "read only" (i.e. inquiry) only for non-job related functions and the segregation of duties issues noted should be addressed.

The District should ensure that there is properly established segregation of duties over the Purchasing and Accounts Payable functions as defined in the Accounting Manager (ACM) and Requisition Manager (RCM) modules of the Finance Manager application. The District should transfer the System Administrator role of Finance Manager to an individual outside of the Business Office who has no day-to-day processing requirements relative to their job function. Although a review was performed for selected Business Office personnel in the

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scope of the Audit, a more comprehensive review of permission rights and user access of the Business Office staff should be performed to ensure an adequate segregation of duties exists. A secondary control would be to have the Internal Claims Auditor (ICA), who has no Finance Manager access rights, be responsible to verify documentation for access rights set-up and any changes made to them. This could be accomplished by the ICA receiving a monthly Finance Manager report reflecting updates to Finance Manager Permission (i.e. Access Rights) and validating that appropriate authorizations are on file. This control would help to mitigate the risk of unnecessary and unauthorized access being granted.

We also recommend that back-up user id's be established for all pertinent job functions of the Business Office. Back-up id's should be activated when circumstances warrant and the regular user id for the person it is assigned to should be made "inactive". This is the current practice for one employee that performs multiple functions based on the needs of the Business Office. The System Administrator would need to manage and document this process when a back-up user id is assigned to an individual.

**9. The Board should develop a policy requiring follow-up at regular intervals on outstanding purchase orders over 30 days old.**

**Observation:** The June 2007 Final Risk Assessment commented that the District does not have a policy to follow-up at regular intervals on outstanding purchase orders over 30 days old and that it is a good business practice to assign someone to periodically review the file of unfilled orders. Discussions with the Assistant Business Manager noted the Accounts Payable Clerk has general procedural steps to follow-up on outstanding PO's, however; a review of the respective Board approved Fiscal Management Policies did not include a policy addressing follow-up on outstanding PO's over 30 days old.

Our testing results for the Cash Disbursement/Accounts Payable function reflect a significant back log of outstanding PO's. The back log is attributable to various conditions, one of the major ones being non-receipt of a properly approved invoice and/or PO receiving copy. The Business Office Manager is developing a document which will define the PO process and provide guidelines and exhibits for procurement, accounts payable and other relevant staff. She intends to have this document distributed on a District wide basis to all personnel.

**School District Risk/Opportunity:** To help ensure timely delivery of goods and services, to ensure timely payment of invoices, and to ensure good business practices are in place over purchases and accounts payables, someone should be assigned to periodically review the file of unfilled orders.

**Recommendation:** The Board should develop a policy requiring follow-up at regular intervals on outstanding purchase orders over 30 days old. The business office staff should take the necessary actions to resolve any backlogs, including timely processing receiving reports. The Business Office Manager should continue the development of the document

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which will define the PO process and provide guidelines and exhibits for procurement, accounts payable and other relevant staff. That document should be distributed to all staff associated with the purchasing and accounts payable process.

**10. Payments should be processed timely, purchasing and payment transactions need to be adequately documented, and the use of confirming purchase orders should be reduced.**

**Observation:** Internal Audit tested 25 cash disbursements totaling approximately \$70,844 to determine that the claims on the District are being processed in accordance with the Board approved Fiscal Management Policies for the Accounts Payable and Purchasing functions. Specifically, in our test we reviewed the purchase order, the invoice, the receiving copy of the purchase order, the contract (if applicable), timely payment of the purchase order claim and the check associated with each expense. Internal audit tested the internal controls over the cash disbursements function to ensure that the expenses were supported by adequate documentation, were approved by the Department Head and the Purchasing Agent, the expenditure was posted to the correct budget code, and the expense represents a valid District expense. Of the 25 cash disbursements tested, we noted:

- Eleven (11) instances where payments were not processed in a timely manner. Issuance of payments occurred from thirty (30) days to approximately 90 days after the invoice date. One item was paid five months or 150 days after the invoice date.
- 3 instances of confirming purchase orders.
- 2 instances where the purchase order “Receive Copy” lacks the Department Head authorization. They either indicated "OK to Pay" with no signature or only contain initials of the approver.
- 2 instances of no original invoice in the purchase order packet. Only a Fax copy of the invoice was in the packet.
- 4 instances of no purchase order “Receive Copy” in the purchase order packet. One of these was where the purchase order Audit Copy contained a notation indicating “OK” and the initials of the approver, not their full signature.
- 1 instance of no evidence of approval to pay on a vendor invoices. There also was no notation on the invoices verifying quantities ordered & received to the authorized purchase order.

Internal Audit also noted three items were lacking the invoice # in the Invoice field and one item was lacking the purchase order # in the Purchase Order field on Finance Manager.

**School District Risk and/or Opportunity:** A strong internal control system is necessary for the accounts payable and cash disbursement processes to ensure that only properly authorized, documented and necessary expenditures are made on behalf of the District. Internal controls help to deter and prevent fraud, waste and misappropriation of the District’s assets, which may occur due to the lack of compliance with established policies and procedures. All expenditures should be supported with adequate documentation to ensure

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purchases were authorized, goods were received, services were performed, and the nature of the expense was validated as an appropriate school district expense.

**Recommendation:** Payments should be processed timely, purchasing and payment transactions should be adequately documented, and the use of confirming purchase orders should be reduced. We recommend that District personnel responsible for submitting, verifying and authorizing purchase orders be informed of the District's current purchasing requirements and be held accountable for compliance with them by Business Office personnel responsible for the review and processing of expenditure claims. Items which are not in compliance should not be processed and approved for payment.

We also recommend that the written approvals of "Ok to Pay" by the verifier of the receipt of goods and/or services should contain the full signature of the employee on the purchase order "Receive Copy" submitted to the Purchase Clerk for processing. The practice of utilizing initials on the "Receive Copy" should be discontinued. To strengthen this process, consideration should be given to the Business Office having an authorized signature list with specimen signatures of District personnel that indicate approval for payment based on receipt of goods and/or services. The authorized signature list should be updated, at a minimum, on an annual basis, and also when there are changes to personnel who grant approval.

**11. The District should evaluate current procedures for employee "T&E" expense reimbursements to ensure they are effective and that reimbursements are documented in accordance with Board Policy.**

**Observation:** A random sample of 10 Employee Travel & Entertainment expense reimbursements was selected for testing to determine compliance with the established Fiscal Management Policies for the Expense Reimbursement function. Specifically, Internal Audit reviewed to ensure reimbursements were adequately documented, appropriate forms were utilized, transactions were properly authorized, and the nature and purpose of the expense reimbursement were valid and indicated on the reimbursement expense documentation. In general, our testing indicated inconsistencies in documentation submitted for reimbursement expenses and a general non-compliance with the Board's policy and processing oversight by business office personnel. We noted the following deficiencies and non-compliance to established policy:

- 7 instances (70%) of no documentation (i.e. MapQuest) to substantiate employee mileage.
- 3 instances (30%) where the Claim Form did not contain either the Employee and/or the Supervisor's authorizing signature.
- 5 instances (50%) where the documentation did not indicate the purpose for incurring the expense.
- 1 instance (10%) of no Claim Form/Expense Voucher with Employee and Supervisor signatures.

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- 1 instance (10%) where the expense reimbursement lacked the required approved conference attendance request form as per the established Board Expense Reimbursement policy.
- 1 instance (10%) where the expense reimbursement lacked the required Expense Voucher as per the established Board Expense Reimbursement policy.

**School District Risk and/or Opportunity:** Generally, T & E expense reimbursements require a higher level of scrutiny and review by Business Office personnel, specifically the Accounts Payable Clerk and the Internal Claims Auditor to ensure the associated travel, conference and related expenses were appropriately approved and expenses were supported by adequate documentation and are in compliance with District policies.

**Recommendation(s):** The District should evaluate current procedures for employee “T&E” expense reimbursements to ensure they are effective and that reimbursements are documented in accordance with Board Policy. Reimbursement expense claims should clearly indicate the type, nature and amount of the expense. Conference attendance should be appropriately documented to validate it was reviewed and approved and that it provides a direct educational and professional benefit to the employee and also indirectly to the District. Inadequate documentation submitted to Accounts Payable for reimbursement should be returned to the proper staff member (s) for completion. Incomplete documentation prohibits an adequate and thorough review from being performed and increases the risk for improper expense reimbursements and misuse of the District’s assets.

Standardized forms utilized for employee expense reimbursements should be reevaluated and developed, where lacking, to ensure they are appropriate and allow for proper documentation as to the type, nature, purpose and authorization of the reimbursement. The forms should include, but not be limited to, basic items such as Employee Name, Position, Building/Department, Expense Category, Purpose/Reason for Incurring Expense, All Receipts Attached, etc.

Additionally, the Board approved Expense Reimbursement Policy should be updated to reflect any and all changes to the documentation and forms requirements developed and implemented by the District.

**12. The Claims Auditor process should be documented and bonding requirements and reporting requirements per Board Policy should be adhered to.**

**Observation:** A sample of 3 Warrants was selected from the FY 08/09 Warrant Summary Listing for testing to determine compliance with established Board of Education (BOE) Fiscal Management Policies for the Internal Claims Audit (ICA) function. The internal claims auditor certifies the Warrants after auditing each item in it and provides them to the District Clerk for inclusion in the Board packets. The Warrants are included on the Board Agenda as a resolution item for the Board to vote upon. The following was noted:

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- The Internal Claims Auditor is not bonded as required by the NY State Education Department. The Bond must be received by the Board within 10 days of when the claims auditor is notified of the appointment and before assumption of job duties. The District Superintendent also must approve the bond.
- The Internal Claims Auditor is required, per Policy, to report the results of Warrant reviews directly to the Board of Education. The Internal Claims Auditor provides the results to the Audit Committee, the Assistant Business Manager and the Purchasing Agent, who is also the Assistant Superintendent of Business and provides a summary report to the Board.
- The Internal Claims Auditor does not have written desk procedures for the Claims Audit process. These should be developed and documented to evidence the process performed in reviewing and certifying all claims on the District.

***School District Risk and/or Opportunity:*** The Internal Claims Auditor is appointed by the Board at the annual re-organization meeting and is responsible for formally examining, allowing or rejecting all accounts, charges, claims or demands against the school district. The Claims Auditor serves at the pleasure of the Board, is required to be independent of all business office processes and be bonded per NY State Education Department. The internal claims auditor should report the results of audits and claims directly to the Board. As part of the claims audit process, the Internal Claims Auditor is charged with ensuring proposed payments are for a valid and legal purpose; that the obligation was incurred by an authorized District official; that the items for which payment is claimed were in fact received or, in the case of services, that they were actually rendered; that the submitted voucher is in proper form, mathematically correct, does not include previously paid charges, and is in agreement with the purchase order or contract upon which it is based; that reimbursements for expenses are determined to be just and necessary and that all payments for which there is a prerequisite for competitive bidding or a request for proposals are in accordance with legal and Board policy mandates.

***Recommendation:*** The Claims Auditor process should be documented. The Claims Auditor should be bonded and should report to the Board. The internal claims auditor must be bonded in accordance with NY State Education Department law. The amount to be bonded should be determined by the Board and be relative to the functional authorization the Internal Claims Auditor has for certifying Warrants submitted to the Board for resolution approval.

Written desk procedures should be developed to reflect the internal Claims Auditor's "audit process" for reviewing items in a Warrant as well as the nature and type of reporting that the Board requests.