

Plainedge Union Free School District

Internal Audit Report

On

Procurement and Claims Processing

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

TABLE OF CONTENTS

Report on Internal Controls Related to Procurement and Claims Processing

Procurement Overview	Pages 1 – 2
Competitive Bid Process	Pages 3 – 5
Quotation Process	Pages 6 – 7
Procurement Process	Page 8
Cash Disbursement Process	Pages 9 – 10
Claims Auditor Process	Page 11
Vendor Maintenance	Page 11
Findings and Recommendations	Pages 12 – 14
Corrective Action Plan	Page 14



Board of Education
Plainedge Union Free School District
241 Wyngate Drive
Plainedge, New York 11758

We have been engaged by the Board of Education (the "Board") of the Plainedge Union Free School District (the "District") to provide internal audit services with respect to the District's internal controls related to the procurement and claims processing procedures for the period July 1, 2018 through March 21, 2019.

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;
- 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 badge;
- Tested a sample of disbursements related to the Districts' authorized cell phones to verify proper usage for business purposes and within limits;
- Tested a sample of vendors paid in excess of \$600 in the calendar year ending 2018 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.

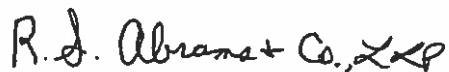
The results of our procedures are presented on the following pages.

Our procedures were not designed to express an opinion on the internal controls related to the 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
June 14, 2019

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

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 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, 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.
- 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.
- 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.
- When it is not feasible to obtain a resolution passed by the Board prior to the purchase, the Assistant Superintendent for Business & Administration and/or the Superintendent must be notified that an emergency situation exists. Approval to make necessary purchases must be obtained from the Superintendent and/or his designee. They will then be responsible for notifying the Board of the emergency situation.
- 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.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

No contracts for goods and services shall be made by individuals 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. *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.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

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.
- 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
 - *A Certification of Verification* (where an employee will not be employed if the employee is not legally allowed to work.
- An affidavit is maintained for the advertisement placed for bids.
- Vendors may request bids via telephone, collect bids at the business office 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 Plainedge Union Free 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 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 after advertisements for bids as required by *Section 103 of the General Municipal Law*. In certain instances bids are conducted on behalf of the District by its

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

architect and awarded to the lowest responsible bidder based on the architect's recommendation.

- 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;
 - Number of vendors notified and the number of vendors who responded to the bid.

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 or 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 NYS, and NYSS Industries for the Disabled;
- 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;

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

- Claims Management;
- Pharmaceutical Services;
- Advertising Services; and
- Auditing Services (RFP's are required every five years for external audit services).

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.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

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: At the discretion of the central office department head or building principal.
 - b. Contracts from \$1,000 to \$4,000: Three verbal quotes.
 - c. Contracts from \$4,001 to \$19,999: Formal written quotations from at least three separate vendors.
 - d. 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 \$2,000: At the discretion of the central office department head or building principal.
 - b. Contracts from \$2,001 to \$5,000: Three verbal quotes.
 - c. Contracts from \$5,001 to \$34,999: Formal written quotations from at least three separate vendors.
 - 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 person 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 principal at the respective building, next by the Assistant to the Purchasing Agent, and last by the Purchasing Agent at the business office.

**Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing**

- 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.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

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 applicable supervisor for review and approval.
- The building principal or the supervisor reviews the purchase requisition for completeness and for the quotations (if required), dates and signs the purchase requisition and approves it electronically.
- The designated person at the building forwards the purchase requisition information for approval to the Assistant Purchasing Agent who reviews the information before providing it to the Purchasing Agent.
- 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 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, NYS contract or bid specifications.
- The approved purchase requisition is then converted to a purchase order by the Purchasing Agent, the Assistant Purchasing Agent is responsible for printing out the purchase orders, and providing them to the appropriate vendor.
- In the absence of the Purchasing Agent, the Assistant Superintendent for Business is the deputy Purchasing Agent and has the ability to review and approve requisitions.
- 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 Purchasing/Account Payable;
 - Receiving – copy goes back to the requester of the merchandise or service, then returned signed and dated when order has been received and invoice can be paid;
 - Requestor – copy goes back to the requester of the merchandise or service.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

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 accounting department. Once returned to accounting department, the account clerk in accounts payable stamps the purchase order received.

The accounts payable clerk attaches the receiving copy of the purchase order to the copy of the invoice and matches it up to the Accounting copy of the purchase order. Once the purchase orders are matched, the accounts payable clerk stamps the purchase order.

The accounts payable clerk reviews the invoice for mathematical accuracy and investigates any price discrepancies in the invoice and supporting documentation. A need to increase the purchase order amount will be handled by the Purchasing Agent before the order is completed 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;
- All supporting documentation such as labor or certified payrolls;
- Copy of vendor bids and quotation (if any);
- Copy of the check.

The accounts payable clerk enters payment information in *Wincap* (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.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

The claims auditor reviews each voucher package, stamps the invoice “Approved by Claims Auditor” with the date, initials the check, and signs the summary warrant report.

Twice a month payment schedule is ready to be processed. The Treasurer is notified and required to use a password for printing the checks.

The checks are printed on prenumbered blank check stock which is maintained in the business office and locked in a safe. The blank check stock can only be accessed by the Treasurer and Deputy Superintendent/backup check signer.

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

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

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.
- 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.
- Checks 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 sent back to the Accounts Payable Clerk or Purchasing Agent for additional supporting documentation.
- Checks are processed by the District prior to auditor's review. Once approved by the claims auditor, invoice is stamped "Approved by Claims Auditor". 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 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.

VENDOR MAINTENANCE PROCESS

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

- The Purchasing Agent and Assistant Purchasing Agent only add new vendors once a W-9 is received and reviewed.
- The Assistant Superintendent for Business reviews the Vendor Change Report from *Wincap* on a monthly basis.
- Within *Wincap* only addresses or remittance addresses can be changed for vendors. If any other information needs to be changed, such as a name or tax ID, a new 1099 is requested and input into the system as a new vendor and the old vendor is inactivated.
- *Wincap* does not allow for duplicate vendors to be entered in the system.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

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 it relates 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.

Policies and Procedures

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

Finding: We noted that the District's credit card policy does not provide sufficient guidelines of the allowable use of credit cards.

Recommendation: We recommend the District update their policy to include information regarding authorized users, allowable transactions, any limitations to amount of charges, and unauthorized credit card activity disciplinary action.

Procedure Performed: We reviewed the claims auditor's reports from July 1, 2018 to February 28, 2019 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 twenty 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.

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

Finding: We noted that supporting documentation is not obtained when the district piggybacks off another school district's bid. We noted one instance where the District did not have support to show that the bid was publicly advertised.

Recommendation: We recommend the District obtain all required support when piggybacking off another school's bid.

Cash Disbursements and Purchasing

Procedures Performed: We tested forty 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 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 three 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 five vendor payments related to the District's authorized credit card to verify proper usage for business purposes and within limits.

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

Plainedge Union Free School District
Internal Audit Report on Procurement and Claims Processing

1099 Compliance

Procedures Performed: We tested fifteen vendors paid in excess of \$600 in the calendar year ending 2018 to determine whether an IRS Form W-9 was maintained on file and an IRS 1099 form was properly issued.

Finding: We noted one instance where an IRS 1099 form was not issued to an individual/sole proprietorship for services provided. In this instance the vendor had been set up incorrectly in the system.

Recommendation: We recommend the District review their active vendor listing to determine that all required vendors are issued an IRS 1099 form.

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

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.