



District Office

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May 1, 2012

Tompkins Seneca Tioga BOCES
Internal Audit Services
555 Warren Road
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Dear Ladies and Gentlemen:

In response to your 2009-10 Purchasing and Expenditures Internal Audit Report presented to the Board of Education, Elmira Heights Central School District on June 11, 2012, we submit the following corrective action plan.

Exceptions and Recommendations:

Observation 1

Purchase order and check generated to pay for pizza for a Community Foundation grant did not have invoices attached to show the appropriateness of the amount paid and whether sales tax was paid. In addition the approved budget did not include food purchases.

Corrective Action Plan – District Regulation 5410R.2 states that “No payment for goods or services shall be made unless both an itemized invoice showing name of the person or firm to whom payment is due, and a receiving copy of the purchase order, bearing the signature of an authorized school employee are present. Furthermore the invoices must have been issued in response to an approved purchase order.” District personnel are and will continue to be reminded that they must be diligent in forwarding proper documentation to appropriate business office personnel to be attached to the purchase order after receipt of goods or services. Business office personnel must also be diligent in following up on prepaid purchase orders that lack appropriate documentation of receipt and payment of goods and services.

Observation 2

District Regulation 5410R.1 – District regulation 5410R.1 requires originators of purchases less than \$750 obtain at least two catalog or price sheet comparisons and that they indicate on the purchase requisition form the basis for which vendor used. During testing, seven purchases ranging from \$36 to \$508 showed no evidence of this requirement.

Corrective Action Plan – District personnel will be more diligent in obtaining evidence on purchases under \$750 that at least two catalog or price sheet comparisons are made prior to issuing purchase orders and that such documentation is included with the purchase order.

Observation 3

Vendor Listing – During testing, internal audit reviewed the current vendor listing for the district. Multiple accounts for various individual, active accounts for individuals who have left the district, and accounts that have not been used since the 2007-08 school year were noted.

Corrective Action Plan – The purchasing agent reviewed the vendor listing and inactivated all vendors not used in the past 3 years. This review will be performed on a periodic basis in the future.

Observation 4

Invoice over PO amount – During testing, internal audit noted a payment made to a vendor that exceeded the purchase order amount by more than 10%; the purchase order dollar amount was not increased to accommodate the overage. Through inquiry, internal audit also learned that WinCap, the district's financial software, is not set up to stop or disallow a final payment that exceeds the dollar amount of the purchase order.

Corrective Action Plan – The district has requested that BOCES computer services set the overpayment tolerance to 10% and has confirmed with them that this has been done.

Observation 5

Original invoices – During testing, internal audit noted a payment being made to a vendor using invoice copies. Good business practice requires and internal audit recommends that only original invoices are obtained and used for all payments.

Corrective Action Plan – The district will pay from original invoices. In addition, the district's financial software does not allow duplicate invoice numbers to be paid more than once.

Sincerely yours,



Debra L. Palmer
Business Manager

Cc: Mary Beth Fiore
Board of Education
Eugene Civik, GST BOCES
NYSED Office of Audit Services

Enter with high expectations – leave with confidence and pride.

**Board of Education
Elmira Heights Central School District
2083 College Ave.
Elmira Heights, NY 14903**



**Purchasing and Expenditures
Internal Audit Report
Fiscal Year 2009 - 2010**

August 2010

Executive Summary

Internal Audit performed an audit including detailed testing of the internal controls over Purchasing and Expenditures. The results of the audit in summary were as follows:

- All payments tested were for goods and services actually received;
- All payments tested were correct and accurately reflected in the accounting system;
- All purchasing activities are supported by authorized and documented policies and procedures; enhancements or revisions suggested;
- Original invoices should be utilized and maintained for all payments;
- Vendor listing should be updated to reflect current vendors, current employees, and to eliminate multiple accounts; and
- The district should investigate the possibility of Win Cap monitoring payments exceeding purchase order amounts.

The items noted above indicate some of the strengths and weaknesses identified by Internal Audit throughout the detailed testing of Purchasing and Expenditures.

Audit Scope, Objective and Methodology

Scope

Per New York State Education Law, and the Regulations of the Commissioner of Education, Internal Audit is required to perform annual testing and evaluation of one or more areas of the district's internal controls, taking into account risk, control weaknesses, size, and complexity of operations.

The audit of Purchasing and Expenditures at the Elmira Heights Central School District was conducted during August 2010 and covered the 2009-2010 school year.

The Elmira Heights Central School District has entered into a cooperative services agreement with the Greater Southern Tier BOCES to perform some of the District's financial operations. Therefore, a portion of the risk assessment's fieldwork was performed at the Central Business Office (CBO) located in Horseheads, NY.

Internal Audit is a department within Tompkins-Seneca-Tioga BOCES and is supervised by the Board of Education for the Elmira Heights Central School District under a cooperative services agreement. The findings and conclusions in this report are the responsibility of the Board and the Internal Audit Department.

Objective

To determine whether:

- All purchasing activities are supported by authorized and documented policies and procedures;
- Purchasing appropriately supports the objectives of the district;
- Appropriate goods/services are obtained at the optimum price;
- Purchasing activities are valid, justified, authorized, and within the prescribed budgets as well as regulatory guidelines;
- All payments are for valid accounts for goods and services actually received; and
- All payments are correct and accurately reflected in the accounting system.

Methodology

Internal Audit is governed by adherence to applicable AICPA *Generally Accepted Auditing Standards* and The Institute of Internal Auditors' *Code of Ethics*. The Institute's *International Standards for the Professional Practice of Internal Auditing* (Standards) constitutes the operating procedures for the department. The Institute of Internal Auditors' *Practice Advisories* were adhered to as applicable. In addition, the Internal Audit department complies with applicable

Regulations promulgated by the State Commissioner of Education and the school district's policies and procedures.

Upon completion of the required annual risk assessment update, Internal Audit communicated to the Board the areas of elevated risk within the District. The Board requested that Internal Audit perform an audit of Purchasing and Expenditures. The audit was then performed based on the selection made by the Elmira Heights Central School District Board.

Samples were selected for internal control testing, along with discussions with District staff, and walk-throughs of key processes. Testing during this audit was focused on key controls within the Purchasing and Expenditures area, which could or are likely to have a significant impact on the Purchasing and Expenditures or the District as a whole.

Exceptions and Recommendations

Observation 1

During testing, internal audit examined a purchase order generated in November 2009 to pay in advance for food purchased and accounted for in the federal fund under a Community Foundation Federal Grant. The supporting documentation for the purchase did not show evidence of an invoice, therefore, internal audit could not determine the appropriateness of the amount paid and if sales tax was applied to the purchase. Furthermore, the approved budget for the grant did not include food purchases. Internal audit recommends that original invoices are obtained for payment and maintained as supporting documentation for every purchase made by the district and that all disbursements accounted for in the federal fund are allowed by grant budget or funding guidelines.

District Response - A purchase order was cut to encumber monies for pizzas, and a prepaid check was requested to pay for the pizzas upon delivery. The request went through the approval & audit stages. The District will develop a policy to ensure receipts received after the fact are attached to the purchase order supporting documentation.

Observation 2

Purchasing Regulation 5410R.1 – District regulation 5410R.1 requires that originators of purchases less than \$750 obtain at least two catalog or price sheet comparisons and that they indicate on the purchase requisition form the basis for which vendor used. During testing, seven purchases ranging from \$36 to \$508 showed no evidence of this requirement. Internal audit recommends that administration and the board reviews the policy requirements to ensure that necessary, reasonable, and efficient thresholds are in place and that purchases are not approved without showing evidence of the required documentation. Furthermore, internal audit recommends that all supporting evidence required by district policy be attached and maintained with the voucher packet to ensure a documented audit trail.

District Response – The District is currently requesting verbal or written quotes for purchases \$1,000 or more. The District always checks for the best price and have changed vendors and / or pricing as purchase orders are processed.

Observation 3

Vendor Listing – During testing, internal audit reviewed the current vendor listing for the district. Multiple accounts for various individuals, active accounts for individuals who have left the district, and accounts that have not been used since the 2007-2008 school year were noted. It is good business practice to maintain a formal file or list of vendors with whom the district has had current and positive experiences with. Internal audit recommends that district staff and/or the purchasing agent for the district reviews the current listing to ensure that all listings are valid and current vendors, employees who listed are valid and current employees and that multiple accounts do not exist without reasonable cause. All other listings should be inactivated. Furthermore, this type of review should be done on a periodic basis.

District Response – The district will review the vendor listing and inactive vendors that no longer do business with the district.

Observation 4

Invoice over PO amount – During testing, internal audit noted a payment made to a vendor that exceeded the purchase order dollar amount by more than 10%; the purchase order dollar amount was not increased to accommodate the overage. Through inquiry, internal audit also learned that Win Cap, the district's financial software, is not set up to stop or disallow a final payment that exceeds the dollar amount of a purchase order. Internal audit would like to note that the district and the Central Business Office does have a standard practice associated to this type of situation which involves increasing the PO and obtaining the proper approvals for the increase, however, internal audit did not see evidence of the district's policies/regulations allowing for such practices. Internal audit recommends updating or revising district policy to include such practices, as well as, investigating the possibility of having Win Cap set up to monitor and stop any payment that exceeds a purchase order dollar amount.

District Response – The district will consider setting WinCap to a zero tolerance to disallow a final payment that exceeds the dollar amount of a purchase order.

Observation 5

Original Invoices – During testing, internal audit noted a payment being made to a vendor using invoice copies. Good business practice requires and internal audit recommends that only original invoices are obtained and used for all payments.

District Response – The district will pay vendors from original invoices.

Conclusion

Based on the results of audit test work Internal Audit believes internal controls and the related policies and procedures over purchasing are present, but could be enhanced. The aforementioned audit exceptions indicate weaknesses in the internal control system. Strengthening policies and regulations along with monitoring internal controls and related policies and procedures to address these weaknesses will further enhance the District's ability to ensure purchases made appropriately support the objectives of the District, appropriate goods/services are obtained at the optimum price, purchasing activities are valid, justified, authorized, and within the prescribed budgets as well as regulatory guidelines, payments are for goods and services actually received, and payments are correct and accurately reflected in the accounting system.

Corrective Action Plan

Per New York State Education Law, and the Regulations of the Commissioner of Education, the District is required to formulate a corrective action plan in response to this audit report. It should individually address each of the exceptions noted above, indicating how the District plans to mitigate the risks identified. The District may elect to adopt the recommendations of Internal Audit as stated, or develop their own plan, as long as the plan adequately addresses the exceptions identified. Internal Audit reserves the right to comment on the adequacy of the District's Corrective Action Plan.

