

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

**Sachem
Central School District
Internal Controls
Over Purchasing**

Report of Examination

Period Covered:

July 1, 2008 — May 31, 2010

2011M-48



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2011

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Sachem Central School District, entitled Internal Controls Over Purchasing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Sachem Central School District (District) is located in the Towns of Brookhaven, Islip and Smithtown in Suffolk County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are 18 schools in operation within the District, with approximately 15,300 students and 2,500 employees. The District's budgeted expenditures for the 2009-10 fiscal year were \$274,194,940, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to determine whether the District had adequate controls over purchasing for the period July 1, 2008 to May 31, 2010. Our audit addressed the following related question:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the purchasing area, and based upon the results of limited testing performed, we examined internal controls over purchasing for the period July 1, 2008 to May 31, 2010.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of District
Officials**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Purchasing

General Municipal Law (GML) requires school districts to advertise for bids for purchases in excess of \$20,000 and public work contracts in excess of \$35,000.¹ GML also requires the Board to adopt a procurement policy for goods and services that do not have to be competitively bid. The procurement policy should require that procurement decisions be based on District personnel's review of request for proposals (RFPs), require that employees obtain written or verbal quotations from vendors, describe each method of procurement, and explain when to use each method. In addition, the policy should require District personnel to maintain adequate documentation of procurement decisions, including written agreements. The Board is responsible for ensuring that District personnel are aware of, and comply with, the requirements of GML and the Board's procurement policy. The Assistant Superintendent of Business and the purchasing agent are responsible for designing internal controls that help ensure the prudent and economical use of taxpayer money when procuring goods and services.

The District has comprehensive policies and procedures in place over the purchasing process. The District's procedures provide guidance to help ensure that the District obtains the best quality of goods and services at the lowest possible price. Due to the District's size, the District's purchasing processes are decentralized. The purchasing agent and appropriate departments jointly develop standardized lists of commonly used items for all categories or groups of supplies. To make a purchase, the School Business Administrator must review the requisitioning department's purchase order to ensure funding is available prior to the department forwarding the purchase order to the purchasing agent for approval. The employee requisitioning the goods or services is responsible for seeking competition, while the purchasing agent is responsible for ensuring that competition was sought before approving the purchase order. Upon receipt of goods or services, the requesting department heads forward the required documentation to the Accounts Payable department for payment. District employees receive the goods, inspect and verify the quantity of the merchandise, and sign and print their names on delivery slips or other documents transmitted by the vendor. The appropriate department head then sends these documents to the Accounts Payable department for processing and payment.

¹ Recent amendments to the General Municipal Law increased the bidding threshold for public works contracts from \$20,000 to \$35,000 effective November 2, 2009; the bidding threshold for purchase contracts was increased from \$10,000 to \$20,000 effective June 22, 2010.

During our audit period, the District awarded contracts for 360 purchase and service contracts totaling approximately \$15.4 million, which consisted of 219 bids, 112 quotes, and 29 RFPs. We examined disbursements for 38 of these contracts totaling \$4.7 million. We judgmentally selected the claims based on dollar amounts and type of purchase. We determined that the purchases were reasonable and appropriate. We also determined that District officials sought the proper competition for the items, properly initiated and approved the purchase orders before making the purchases, and verified the receipt of goods and/or services. Overall, we found that the District had established adequate internal controls over purchasing and that these controls were working effectively.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

Sachem Central School District at Holbrook

James J. Nolan
Superintendent of Schools

Bruce H. Singer
Associate Superintendent
245 Union Avenue
Holbrook, NY 11741

Phone (631) 471-1321
FAX (631) 471-1318

June 2, 2011

Ira McCracken
Chief Examiner of Local Government and
School Accountability
Office of the State Comptroller
NYS Office Building
Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

We are in receipt of the Sachem Central School District Internal Controls Over Purchasing draft Report of Examination for the period July 1, 2008 thru May 31, 2010. Please accept this letter as the Sachem Central School District Corrective Action Plan and Audit Response.

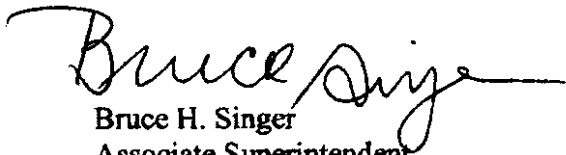
The New York State Comptroller's Office found that the Sachem School District has established adequate internal controls over Purchasing and these controls are working effectively. As the audit notes, Sachem awarded contracts for 360 purchase and service contracts totaling approximately \$15.4 million. The New York State Comptroller's Office examined disbursements for 38 of these contracts totaling \$4.7 million. It was determined that the purchases were reasonable and appropriate. We are extremely proud of the fact that Sachem School District has established adequate internal controls and is safeguarding community tax dollars. As your office is aware, this is the 2nd New York State Comptroller's Office audit during the 2010-2011 school year without one mistake or issue. This speaks volumes of the dedicated and conscientious staff in the school district.

During the audit process, I found the auditors assigned to the Sachem School District to be highly professional and extremely knowledgeable in all facets of proper good governance and financial controls. Your staff treated the Sachem School District staff with the utmost courtesy and I thank them for this opportunity.

In summary, as your office complimented our internal controls, there is no Corrective Action Plan required as the result of this New York State Comptroller's Audit. There were no comments, nor modifications suggested. We look forward to any future audits, as the Sachem School District continues to be a model of outstanding fiscal prudence for others to emulate.

In the event you have any questions or concerns, please do not hesitate to contact me.

Sincerely,



Bruce H. Singer
Associate Superintendent

BHS:cmc

Cc: Members, Board of Education

J. Nolan

Audit Sub Committee

Toski, Schaefer & Co., P.C.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed current District policies and procedures related to purchasing.
- We interviewed key personnel to determine the process of requisitioning goods or services, required approvals, and procedures for locating a vendor.
- We interviewed key personnel to determine the process for authorization of payment to the vendor.
- We examined RFPs and bidding documentation to determine whether the procurement of professional services and purchases were made in accordance with Board policy and legal requirements.
- We examined claims for evidence of audit and approval and adequate support.
- We examined claims to determine if quotes were obtained in accordance with District policy.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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Steven J. Hancox, Deputy Comptroller

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