

**CENTER FOR INSTRUCTION, TECHNOLOGY & INNOVATION
BOARD OF COOPERATIVE EDUCATION SERVICES**

**Independent Internal Audit Report
Purchasing Function
2017-2018**

Bonadio & Co., LLP
Certified Public Accountants

April 18, 2018

Audit Committee Members
Center for Instruction, Technology & Innovation
179 County Route 64
Mexico, NY 13114

Dear Audit Committee Members:

Bonadio & Co., LLP was engaged by the Center for Instruction, Technology & Innovation (CiTi) to fulfill the requirements of the Internal Audit Function in accordance with the provisions of the 2005 Public School District Accountability Act. We have been contracted by CiTi to evaluate the policies and procedures in place regarding the internal controls over the purchasing function.

The results of our testing, which are included in this report, have been communicated to the CiTi Administration, whose responses have been included in this document.

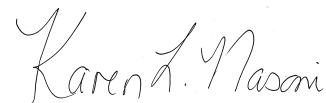
This report is intended solely for the information and use of CiTi Administration, the Audit Committee, and others within CiTi and is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the cooperation extended to us during our by the employees of CiTi, during this engagement.

If you have any questions concerning this report, please feel free to contact us at any time.

Very truly yours,

BONADIO & CO., LLP



by:

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SECTION I: EXECUTIVE SUMMARY

Purpose and Scope

The procedures performed examined the effectiveness of the internal control environment surrounding the purchasing function with the applicable policies and procedures of the Center for Instruction, Technology & Innovation (CiTi).

Internal Control Assessment

We believe that based on the work performed, CiTi internal controls over purchasing are adequate.

In addition, we identified opportunity for enhancement and efficiency over existing policies and procedures.

Responses from Administration

CiTi Administration's responses to our observations identified in our report are described in Section III: Observations and Recommendations. We did not audit CiTi responses and, accordingly, we express no opinion on them.

Confidentiality

This report is confidential and should be distributed only to those with a need to know and who are authorized to the information; CiTi Board of Education, the District Superintendent, and the Assistant Superintendent for Administration Services. Bonadio & Co., LLP (B&Co.), the Internal Auditors, must approve the release of this report to anyone outside the BOCES.

SECTION II: TESTING PROCESS

We considered and evaluated the following controls:

1. General
 - B&Co. interviewed key personnel including Michael Sheperd, Asst. Superintendent for Administration, Gisele Benigno, Coordinator of Business Administration, Autumn Harrington, Accounts Payable Clerk, Amy Rhinehart, School Purchasing Officer, Linda Kukko, Sr. Account Clerk, Dorris Holliday, Purchasing Typist, Jennifer Woods, Payroll Clerk, Mary Soble, Internal Claims Auditor, Kelly Wood, Treasurer, and Stephanie Burdick, Deputy Treasurer.

2. Understanding of the Design of the Internal Control Environment
 - We reviewed existing documented policies and procedures over the purchasing function.
 - We observed key personnel performing job duties.

3. Assessing the Operating Effectiveness of the Internal Control Environment
 - We assessed the effectiveness of the design of existing policies and procedures through performance of walkthroughs, transactional testing, recalculations, and review of evidence for the existence of key controls.

4. Assessing Identified Risks
 - B&Co. identified areas of risk over the purchasing function and designed additional testing in response to risks surrounding this area.

5. Processing & Recording
 - Selected a sample of 30 disbursements for the months of July, September, and December 2017. B&Co. examined documentation for the following: 1) cancelled check number amount and date agreed to the bank statement. 2) cancelled check payee, amount, date, and check number agreed to the warrant report, and the warrant report was initialed and dated by the Treasurer and signed by the internal claims auditor. 3) cancelled check was electronically signed by the authorized signatory. 4) purchase orders and purchase requisitions were initialed and approved by authorized personnel. 5) if applicable, purchase orders agreed to quotes, bidding documentation, contracts, and board approval. 6) invoices agreed to purchase orders and packing slips. 7) expenditures were properly recorded in WinCap in the proper fund and within budget

SECTION III: OBSERVATIONS AND RECOMMENDATIONS

Our observations and recommendations over the purchasing function as follows:

A. GENERAL POLICIES AND PROCEDURES

Observation

Currently the internal claims auditor does not review physical checks after they have been printed, nor does the claims auditor compare the warrant report to what has been recorded in WIINCAP.

Recommendation

We recommend the claims auditor review checks before they are sent out to the vendors. This will ensure that no changes have been made to the checks from when they were originally approved by the claims auditor. Additionally, we recommend the claims auditor compare the warrant report to what has been recorded in WINCAP. This will ensure that expenditures are properly recorded.

BOCES Response

Currently, the internal claims auditor reviews claim packets consisting of associated backup documentation along with a copy of the actual check. The file for printing check copies is generated from the same file used for printing the actual checks, which are printed immediately after the copies are printed. Checks are then placed in the safe pending OK to release from the internal claims auditor.

Further discussion in consideration of this audit recommendation helped us to realize that to address the gaps suggested by the auditors, it would be prudent to have the internal claims auditor run her own copy of the AP check register following initial claims review and just prior to checks being mailed. As a result of the claims review, the internal claims auditor sometimes identifies the need for check corrections, which can result in the original check being voided. The AP check register report highlights any voids and changes to the original list, which will allow the internal claims auditor to (1) confirm that her requested adjustments have been addressed, (2) observe that no other changes have taken place without her approval, and (3) help guard against checks being released that may contain changes of which the internal claims auditor was not aware. This would also help address the final recommendation since it results in fresh WINCAP data being reviewed prior to release of checks.

Observation

Accounts payable checks are currently printed on the 15th and the 30th of each month. The claims auditor reviews disbursements twice a month. Due to the amount of checks sent out each month there can be 250-300 checks on each warrant.

Recommendation

We recommend that BOCES' management consider printing checks more frequently, perhaps on a weekly basis, during typical higher volume months. This would help to decrease the volume of checks the claims auditor has to review on each check warrant.

SECTION III: OBSERVATIONS AND RECOMMENDATIONS (Continued)

A. GENERAL POLICIES AND PROCEDURES (Continued)

BOCES Response

Up until approximately 12 years ago, our business office had been on a weekly check run cycle. Following identification of hardships that occurred while implementing a myriad of corrective audit recommendations on office processes, check runs were deliberately changed to twice a month as a matter of pressure relief. Staff found that weekly check runs weren't allowing sufficient time to accomplish all of the "newer" steps needed to process a claim from start to finish, and were resulting in rushed processing, staff stress, and an increased degree of mistakes.

In addition, the nature of some of the regular monthly bills is such that multiple invoices are paid on the same check. As such, running checks weekly caused increased check volume and a slight measure of inefficiency as these were split into multiple checks. Also, in recent discussions surrounding this recommendation, it was thought that some confusion might materialize with vendors in those cases relative to account reconciliation, as well as within the BOCES regarding when checks would run on short weeks.

Since implementing bi-monthly intervals, the process has been operating smoothly and is seen as optimal to provide the necessary processing timeframes, maintain efficiency, and avoid being rushed. Discussions with the claims auditor also suggest she feels able to be fully thorough in claims review. As such, absent any identified need to address issues caused by high check volumes, we would feel most comfortable retaining the current schedule. However we appreciate this suggestion and will keep it in mind should issues be identified that could be resolved through a more frequent claims processing schedule.

Observation

Per discussion with the claims auditor, in addition to auditing the check warrants twice a month, the claims auditor also works as a typist in the Human Resources Department and performs attendance.

Recommendation

We recommend that the Board of Education continue to monitor the additional duties performed by the claims auditor to ensure those duties are not prohibited by the School District Accountability legislation.

BOCES Response

This is a good suggestion on the part of the auditors. We have reviewed the School District Accountability Legislation, which cites the following prohibitions:

The claims auditor may not be held by an individual holding certain other positions including:

- (1) a member of the board of education,
- (2) the clerk or treasurer of the board of education,
- (3) the superintendent of schools or other official responsible for business management,
- (4) the purchasing agent, or
- (5) clerical or professional personnel directly involved in accounting and purchasing functions.

We found that we were compliant with the first 4 items, but possibly not fully compliant with the 5th. The internal claims auditor has WINCAP authority for creating purchase orders for the office and does so on occasion (albeit in a non-material and infrequent manner). Also, at times, her name is used as a "requestor" for purchase orders for other departments over which the Assistant Superintendent for HR has supervisory authority.

SECTION III: OBSERVATIONS AND RECOMMENDATIONS (Continued)

A. GENERAL POLICIES AND PROCEDURES (Continued)

BOCES Response (Continued)

We have decided to remove the access rights and responsibilities of the internal claims auditor in WINCAP to initiate and create PO's for the HR office, as well as to remove her name as an option to be selected as requestor for any requisitions. If needed or desired by the Board, we could also consider attesting/reaffirming annually to the BOE that these duties are not part of the internal claims auditor work.

B. OTHER GENERAL OBSERVATIONS

Observation

RAMI is the software program used for maintaining the acquisition of fixed assets and depreciation related to the accounting of fixed assets in CiTi BOCES policy manual. Per the policy manual, fixed assets acquired with a cost of \$500 or more are tagged when received, and inventoried on an annual basis. Fixed assets acquired with a cost of over \$5,000 are capitalized and depreciated in accordance with GASB 34. Acquisitions of property that have a cost of less than \$500 are marked 'Property of Oswego BOCES'.

Recommendation

BOCES should consider developing a policy to tag certain electronic devices that may fall below the \$500 threshold, but could be considered a greater risk of loss or theft due to its size and nature of the item. Examples of an electronic device could be a laptop or tablet. Having these electronic devices tagged would include them in the inventoried items to allow for better control and tracking in order to prevent and detect theft or loss.

BOCES Response

This is a good suggestion, which we actually have been contemplating off and on for some time. We will work to identify some of the more "desirable" items falling within this threshold that may be at risk of succumbing to theft, and consider processes to tag them as suggested. In line with previous consultations with our peer groups in other BOCES regarding what they choose to tag/track in this regard, items would likely be limited to electronic computer devices such as laptops and tablets, and possibly larger power tools (i.e.: chain saws, etc.). We will convene a committee consisting of Operations & Maintenance, Technology and Business Office representatives to discuss this matter in more detail and make a plan to implement such tagging during summer/fall 2018.