Eastern Suffolk BOCES

Internal Audit Report on Detailed Testing

August 23, 2023

JAMES E. DANOWSKI, CPA
JILL S. SANDERS, CPA
DONALD J. HOFFMANN, CPA
MICHAEL J. LEONE, CPA
CHRISTOPHER V. REINO, CPA
ALAN YU, CPA

VINCENT D. CULLEN, CPA
(1950 – 2013)
PETER F. RODRIGUEZ, CPA
(RET.)

CULLEN & DANOWSKI, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Board of Education and Audit Committee
Eastern Suffolk BOCES
Patchogue, New York

We have prepared this report as the result of our detailed testing as further described, which were agreed to by the Board of Cooperative Educational Services First Supervisory District of Suffolk County (ESBOCES), on the purchasing and expenditures area during the period of January 1, 2022 through February 28, 2023 and assist ESBOCES with addressing open recommendations from prior internal audit reports.

ESBOCES' management is responsible for administering this area.

This engagement for detailed testing was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of ESBOCES. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion on ESBOCES' purchasing and expenditures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from ESBOCES' administration and other employees during our engagement.

This report is intended solely for the information and use of ESBOCES and is not intended to be and should not be used by anyone other than the specified parties.

Cullen & Danowski, LLP

August 23, 2023

Introduction:

This report is organized as follows, categorized by function (i.e., purchasing and expenditures and assist ESBOCES), and there are five sections under each function consisting of:

- Background information

- Summary of the engagement

- Procedures performed during our detailed testwork

- Findings as a result of our review

- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within ESBOCES and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan (CAP), approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

ESBOCES should submit the CAP along with the respective Internal Audit Report via the NYSED Portal.

PURCHASING AND EXPENDITURES

Background:

Section 104-b of the General Municipal Law (GML) requires local governments to adopt written policies and procedures governing the procurement of goods and services when competitive bidding is not required. This statute also requires local government personnel to document certain purchase-related decisions. In addition to provisions to ensure compliance with the GML Section 104-b, the adopted policies and procedures should identify authorization limits, the use of requisitions and purchase orders (PO) and the process to follow when purchasing goods and services.

Purchasing is a highly specialized activity in ESBOCES' administration. It is a process that seeks to obtain maximum value from each educational dollar spent for equipment, supplies and contracted services. Prudent purchasing practices help upgrade the quality of programs as well as control cost. The Purchasing Department (Department) consists of the Purchasing Administrator, who is the Purchasing Agent for ESBOCES with responsibilities that include reviewing and approving purchase requests to ensure that all legal requirements are met and that goods and services are purchased only after a full review of the requisition and at an appropriate cost. The Purchasing Administrator is assisted by a second Purchasing Agent; who also acts as the alternate Purchasing Agent, 4 purchasing technicians, 1 principal account clerk, 3 account clerks, and 1 senior office assistant in the Department's Office. The staff provides assistance for the Purchasing Agent that includes entering new vendor information into the WinCap financial system (WinCap), revising PO amounts based on approved budget transfers and communications with vendors. There are designated ESBOCES employees throughout the various Departments with duties that include verifying the receipt of goods and products at the various ESBOCES locations and electronically receiving in goods and/or products within WinCap. There are 7 full-time accounts payable clerks in the Business Office who perform a review of the vendor invoices and enter all payments into WinCap. Also, ESBOCES uses an outside Claims Auditing firm to review all disbursements prior to sending the payments to the vendors.

The WinCap financial system is a robust system that has been designed to provide services to New York State school districts and BOCES. The purchase requisition manager module and the PO manager module are fully integrated into the financial accounting system. The WinCap system provides certain levels of user controls and certain processing controls, which substantially reduce the likelihood of error in the processing of purchase requisitions and POs. For example, the system is setup to route purchase requisitions along a pre-established hierarchy of employees for review and approval depending on the amount of expenditure and the department requesting the purchase. Only after the appropriate employees (in the established hierarchy) have approved a purchase requisition will the request be able to be processed and approved as a PO by the Purchasing Agent.

There are designated ESBOCES employees (requisitioners) who are responsible for acquiring the needed goods or services for the staff working in their respective building or department. The requisitioners are given the appropriate system access to WinCap to enter purchase requests into the Requisition Module that require proper approval by an administrator prior to submission to the Purchasing Department for review and approval. In addition, the requisitioners are given access to their specific budget codes only based on the responsibility of their respective administrator.

The purchasing procedures require contracts to be prepared when ESBOCES requests third parties to provide services. These contracts are submitted to the Board of Education (Board) for approval and no payments are made to vendors until the contract has been Board approved and then the PO is subsequently issued. Additionally, ESBOCES prepares many of its own bids for purchases that exceed the bidding thresholds or utilizes state and other appropriate contracts, county contracts (i.e., Special Education Department for related services and Facilities Department for various goods or services) and other local bids. Also, the Department prepares requests for proposals (RFPs) that are obtained for determined professional services (e.g., legal and auditing).

The Department prepared 87 new bids and 85 extended bids during the 2022-23 year, as well as, 92 new bids and 81 extended bids during the 2021-22 year.

ESBOCES has taken several initiatives to enhance the purchasing and disbursements processes including:

- The Business Office has reduced the paper flow related to purchasing by requiring the requisitioners to scan the documentation to support the pending requisitions and attaching the scanned files with the pending PO within WinCap. This file is reviewed by the designated supervisor and the Purchasing Agent as part of the electronic routing process to approve and convert the pending requisition into a PO.

- The Purchasing Department realizes cost and time savings by tracking cost containment on requisitions, bids and quotes.

Summary:

Our scope of work included meetings with Department staff and numerous requisitioners to gather information regarding the procedures in place at their location with respect to the employees entering purchase requisitions, individuals approving requisitions, budget preparation and monitoring, budget transfers, managing POs, etc. We found that the employees we interviewed demonstrate a positive attitude towards improving procedures and are knowledgeable about the requirements related to their responsibilities.

We suggest that ESBOCES consider implementing the recommendations noted below to further strengthen internal controls and improve operational efficiencies related to requisitioning, purchasing, receiving and disbursements.

Procedures:

Our procedures related to purchasing and disbursements, as per the engagement letter dated January 25, 2023, were as follows:

- Review Board policies and BOCES procedures related to the purchasing and expenditures area.

- Interview Business Office personnel regarding policies, procedures and systems in effect related to the purchasing and expenditures area.

- Interview the employees with responsibilities for purchase requisitions in the divisions, departments and a selection of school buildings to determine if the procedures followed by the staff are standardized and consistent within ESBOCES.

- Review the current requisitioning and purchasing processes and identify the strengths, weaknesses and key control attributes for testing.

- Review the results of our interviews and analysis of processes with the Business Office personnel to discuss opportunities for operational efficiencies and improvements both systematically and functionally related to the requisitioning and purchasing procedures.

- Review the purchasing and expenditures related activity for the period as follows:

  – For vendor accounts with disbursements greater than $100,000 – select 15 accounts.

  – For vendor accounts with disbursements between $20,000 and $100,000 – select 15 accounts.

  – For vendor accounts with disbursements between $10,000 and $20,000 – select 15 accounts.

  – For vendor accounts with disbursements between $300 and $10,000 – select 15 accounts.

    −   For each vendor within the 60 selected, we will review the nature and frequency of transactions with the vendor and examine the requisitioning, purchasing and disbursement records for up to three judgmentally selected invoices to determine whether the applicable ESBOCES policies and procedures had been followed including compliance with Education Law 2D.

- Select 10 contracts processed within the Contracts Processing Unit to ensure that each contract is signed and approved in accordance with ESBOCES *Board Policy #4312 – Approval of Contracts for Procurement of Goods and Services.*

- Select 10 contracts processed outside of the Contracts Processing Unit to ensure that each contract is signed and approved in accordance with ESBOCES *Board Policy #4312 – Approval of Contracts for Procurement of Goods and Services.*

- Select 10 bids during the time period under review and test for compliance with General Municipality Law and ESBOCES policy.

- Review the financial system user accounts and respective permissions related to the requisitioning and purchasing area to ensure that users have the proper level of access based on their job duties.

Findings:

Review of Board policies, procedures and processes related to the current requisitioning, purchasing and disbursement functions and interviews with Business Office personnel regarding policies and procedures found:

- There are Board policies, regulations and formal procedures covering the purchasing and disbursement activities. ESBOCES' *Board Policy #4310 – Purchasing* states that "the purchasing procedures shall be in compliance with all applicable laws and regulations of the State and the Commissioner of Education." This covers the purchasing thresholds as per GML requiring that purchase contracts for materials, equipment and supplies involving an estimated annual expenditure exceeding $20,000 and public work contracts involving an expenditure of more than $35,000 will be awarded only after responsible bids have been received in response to a public advertisement soliciting formal bids. Similar procurements to be made in a fiscal year will be grouped together for the purpose of determining whether a particular item must be bid.

- ESBOCES has *Board Policy #4316 – Uniform Grant Guidance for Federal Awards* regarding the procurement of goods or services using federal grant funds as required per the Uniform Grant Guidance (2 CFR Part 200).

- The *Board Policy #4311 – Procurement of Goods and Services* includes a section when competitive bidding is not required that states "(1) For purchases under $4,000 – one quotation shall be required; (2) For purchases between $4,000 and $7,999 - a minimum of three fax, e-mail, or informal written quotations must be solicited and attached to the purchase requisition and (3) For purchases from $8,000 up to the bid limits established under GML - a minimum of three formal written, e-mail or fax quotations shall be solicited for each such purchase and attached to the purchase requisition.

- ESBOCES schedules periodic training for the requisitioners that is provided by the Purchasing Agent and the Department also assists any new requisitioners with learning the duties of that role. In addition, the Department staff have obtained pertinent accreditations, participates in various groups and attends conferences related to purchasing activities.

- There are a number of standard forms (e.g., PO Change, Budget Transfer and Employee Expense Reimbursement) related to the purchasing and disbursements process that are prepared and then submitted to the appropriate Business Services Department. ESBOCES utilizes a process related to new vendor requests that requires the requisitioners to obtain a completed W9 form that is retained in the vendor file.

Interviews with the selected employees (requisitioners) with responsibilities for purchase requisitions in the divisions, departments and a selection of school buildings to determine if the procedures followed by the staff are standardized and consistent within ESBOCES noted:

- There are standard procedures followed by the requisitioners that include:

  – Sending scanned documents to the Purchasing Department related to the requisition process. This includes any quotes, product information, single records and W-9 form for new vendors.

  – Preparing standard forms and obtaining the required signatures for activities including PO changes to increase or decrease amounts; budget transfers and employee expense reimbursements.

  – Using the PO Control Sheet to manage the open (or blanket) POs during the fiscal year and notifying the Accounts Payable Department when the PO needs to be closed out prior to the end of the year.

  – Working with the receiving staff regarding the verification of the receipt of goods.

- The receiving process requires a second employee other than the requisitioner to sign-off to verify the receipt of goods, which is a strong control where there is appropriate segregation of duties between the requisitioning and receiving procedures.

Review of the requisitioning, purchasing and expenditures related activity for the selected 60 vendor accounts during the period noted:

- ESBOCES has appropriate procedures to verify that invoice amounts agree with the check amounts. This matching process is performed by the Accounts Payable Clerk and the Claims Auditor prior to releasing the vendor payments. However, there was 1 instance where the rate charged by a vendor did not align with the rate listed in the respective bid sheet.

- The use of state contracts and cooperative bids are an efficient method of purchasing goods and services. We found that there are formal procedures to include the state contract/bid pricing documentation with the requisition package. This information facilitates the review by the Accounts Payable Department staff and Claims Auditor to verify that the pricing was correct.

- There were 9 instances where the payment was processed more than 90 days after the invoice date. Although ESBOCES was not contractually obligated to pay these invoices by the due date, good business practice is to process payments in a timely manner. Further review of these items noted that there were various reasons for the delayed payments including the district needing to sign off, items delivered late by the vendor and product had to be exchanged. However, the reasons for such delays were not included within the documentation supporting the payment.

- There were 2 instances where goods or services had been received prior to a PO being in place; also known as a confirming PO. Further review found that there was a plausible explanation for each instance and the reason in one instance was included electronically as a note with the PO in WinCap.

Selection of 10 contracts processed within the Contracts Processing Unit to ensure that each contract is signed and approved in accordance with ESBOCES *Board Policy #4312 – Approval of Contracts for Procurement of Goods and Services* found:

- There was 1 instance where a contract was signed by the Board after the date in which the terms of the contract were to begin. We found that ESBOCES identified this item as part of their contract review process (confirming contract memo was sent to the employee as well as the administrator) as we noted during our testing.

Selection of 10 contracts processed outside of the Contracts Processing Unit to ensure that each contract is signed and approved in accordance with ESBOCES *Board Policy #4312 – Approval of Contracts for Procurement of Goods and Services* noted:

- There were no exceptions or errors as the selected 10 contracts were signed and approved accordingly.

Selection of 10 bids during the period under review and testing for compliance with GML and ESBOCES policy found:

- The Department prepares over 100 formal bids for ESBOCES annually that includes formal procedures to ensure compliance with GML bid laws and standard protocols for filing all of the bid documentation on their shared drive. There are procedures to upload bids directly into WinCap with key information that includes the dates, items, descriptions, prices and vendor numbers. After the upload is completed, the employee who uploads the data, performs a review of a few items against the bid award. However, we found that this process could be enhanced by assigning a second employee to verify the accuracy and completeness of the bid data uploaded into WinCap.

- Review and testing of the selected 10 bids noted that there were no exceptions or errors. We found that ESBOCES had the appropriate bid documentation and complied with the GML bid laws related to these selections.

- There was 1 instance where the Affidavit of Publication, a copy of the bid advertisement, or an invoice from the publisher was not included as supporting documentation for a bid. Further discussions with the Purchasing Administrator found that the Purchasing Department was unable to locate the Affidavit of Publication for this bid due to the advertisement including 3 other bids and the bid occurring more than 7 years ago. However, the Purchasing Administrator was able to provide the Notice to Bidders that included the name of the newspaper and the date of the publication.

Review of the financial system user accounts and respective permissions related to the purchasing area to ensure that users have the appropriate level of access based on their job responsibilities noted:

- There were 2 instances where a user account did not align with a currently active employee. We noted that ESBOCES has inactivated 1 of these accounts based on our finding and there was a name change with the other account.

- There was 1 instance where an employee had two separate user accounts. We noted that ESBOCES has disabled the duplicate account based on our finding.

- There are appropriate procedures in place to manage the WinCap user accounts that includes approvals from the Associate Administrator for Human Resources and the Director of Business Services related to staff changes requiring access to WinCap based on their roles prior to the System Administrator in the Office of Technology Integration setting up or revising user accounts.

- The Office of Technology Integration performs periodic reviews of the WinCap users accounts during each fiscal year to update any accounts (e.g., inactivate) as necessary.

Recommendations:

We recommend that ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to requisitioning, purchasing, receiving and disbursements activities:

1. Good business practice is to process payments to vendor in a timely manner. We recommend that when there is a variance of more than 60 days between the invoice date and requisitioner approval, there should be a notation explaining the reason for the delay in payment electronically noted in the PO. We also recommend that in the event that a vendor sends an invoice prior to providing the goods or services, we recommend that BOCES communicate with such vendor that they need to send an invoice after the goods or services are provided.

2. Continue with efforts to ensure payments to vendors align with the agreed-upon rates listed in the bid documents. In addition, establish procedures to ensure any changes to rates are properly supported.

3. Enhance procedures regarding the uploaded bids by assigning a second employee, who is independent of uploading the bids, to verify the accuracy and completeness of the bid data uploaded into WinCap.

4. Strengthen procedures to ensure user accounts in the WinCap financial system are activated and inactivated timely when an employee is hired or separates from the ESBOCES.

ASSIST ESBOCES

Background:

We were engaged to assist ESBOCES with addressing the open recommendations from the prior internal auditor reports that included contracts and human resources.

Summary:

We found that ESBOCES continues to be active with addressing the recommendations from auditor reports as noted in the findings section below.

Procedures:

Our procedures as per the engagement letter dated January 25, 2023, were as follows:

- Assist ESBOCES with addressing the open recommendations from the prior internal auditor reports that includes contracts and human resources.

Findings:

Assisting ESBOCES with addressing the open recommendations from the prior internal auditor reports that includes contracts and human resources found:

- There has been progress working collaboratively with ESBOCES to address the open recommendations as noted in the following status related to each open recommendation from the Risk Assessment Update Report dated January 18, 2023:

a) *New Hires – Maintain Employee Records Electronically* – We recommended that ESBOCES consider using software to maintain employee records electronically to enhance operational efficiency.

- Status: The Department is in the process of investigating software options.

b) *Payroll – Notification of Intent to Retire* – We recommended that ESBOCES consider revising the UPSEU contract and any other collective bargaining agreement with similar language related to notices of retirement, to change the language from "shall" to "must" to enhance operations by providing ESBOCES with sufficient time to hire employees to fill the positions vacated by retirements of these staff members.

- Status: This item is under consideration and to be further determined upon commencement of upcoming negotiations.

c) *New Hires – Background Summary Checklist* – We recommended that ESBOCES determine if the Background Summary Checklist should be included in the employee folder, since this provided details related to the background procedures performed by the clerks in the HR Department, or should be destroyed due to privacy reasons.

- Status: Implemented.

d) *Payroll – Number of Vacation Days* – We recommended that ESBOCES consider revising the collective bargaining agreements to include 260 days related to vacation days, instead of the current language that is silent with respect to the number of vacation days. The inclusion of 260 days for vacation days would be similar to the 260 days for sick days and would establish consistency and create a standard number of days regarding benefit time pay.

- Status: Implemented.

e) *Purchasing Process – Contracts: Processing Unit's Organizational Structure and Duties* – We recommended that ESBOCES assess the operations of the Contract Processing Unit that includes staffing, duties and organizational structure of the unit. We also recommend that this assessment include a determination regarding the contracts that are handled outside of the Contract Processing Unit (i.e., Arts in Education and Professional Development (CoSer 531)).

- Status: Implemented.

Recommendation:

We recommend that ESBOCES consider implementing the following item to further improve internal controls and operational efficiencies related to the open recommendations:

1. Continue with efforts to address the following two open items as noted above:

    a) *New Hires – Maintain Employee Records Electronically*

    - Status: The Department is in the process of investigating software options.

    b) *Payroll – Notification of Intent to Retire*

    - Status: This item is under consideration and to be further determined upon commencement of upcoming negotiations.