

BUFFALO CITY SCHOOL DISTRICT

*Risk Assessment–Purchasing Cards Program
Findings and Recommendations
For the Year Ending June 30, 2013*

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Purchasing Cards Program
Findings and Recommendations
For the Year Ending June 30, 2013
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Certified Public Accountants

To the Audit Advisory Committee of the Board of Education
of the Buffalo City School District
Buffalo, New York

We are pleased to report on the updated risk assessment for the Purchasing Card Program of the Buffalo City School District (the "District"). The purpose of our engagement is to continue to assist you in the development of a risk assessment of District operations, and provide recommendations to strengthen controls and reduce the identified risks. This report was developed from inquiry and observations and tests of internal controls performed during the 2012-2013 fiscal year.

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. The Risk Assessment – Purchasing Card Program section of the report analyzes the significant risks and findings that were identified during our engagement.

For purposes of this report, internal control is a process, affected by the Board of Education (the "Board"), department heads and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting and safeguarding of assets. We have evaluated the District's current internal controls and have provided our risk assessment and a set of recommendations for strengthening controls and reducing identified risks.

As noted, the purpose of our engagement was to assist you in improving the internal controls and reducing the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system. In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined, or reviewed the information, and express no assurance thereon.

The accompanying comments and recommendations are intended solely for the information and use of the Audit Advisory Committee, the Board of Education, department heads, and others within the District, and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your District for their cooperation. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Drescher & Malecki LLP

June 6, 2013

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**Risk Assessment –
Purchasing Card Program**

BUFFALO CITY SCHOOL DISTRICT

Risk Assessment – Purchasing Card Program

Overview and Scope

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. During our engagement, we became aware of various sources of risk that impact the District. We evaluated these risks by using two distinct assessments of impact and likelihood. A simple rating scale has been developed for this purpose. The rating scale ranges from minor to significant impact, and low to high likelihood, using a 3-point scale.

Impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, we have determined how much of an impact the risk has if it does occur:

- A minor impact suggests that the risk would not have important implications on the District.
- A moderate impact suggests that the risk could have implications for the District's ability to succeed.
- A significant impact suggests that the risk would have important implications on the District.

Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

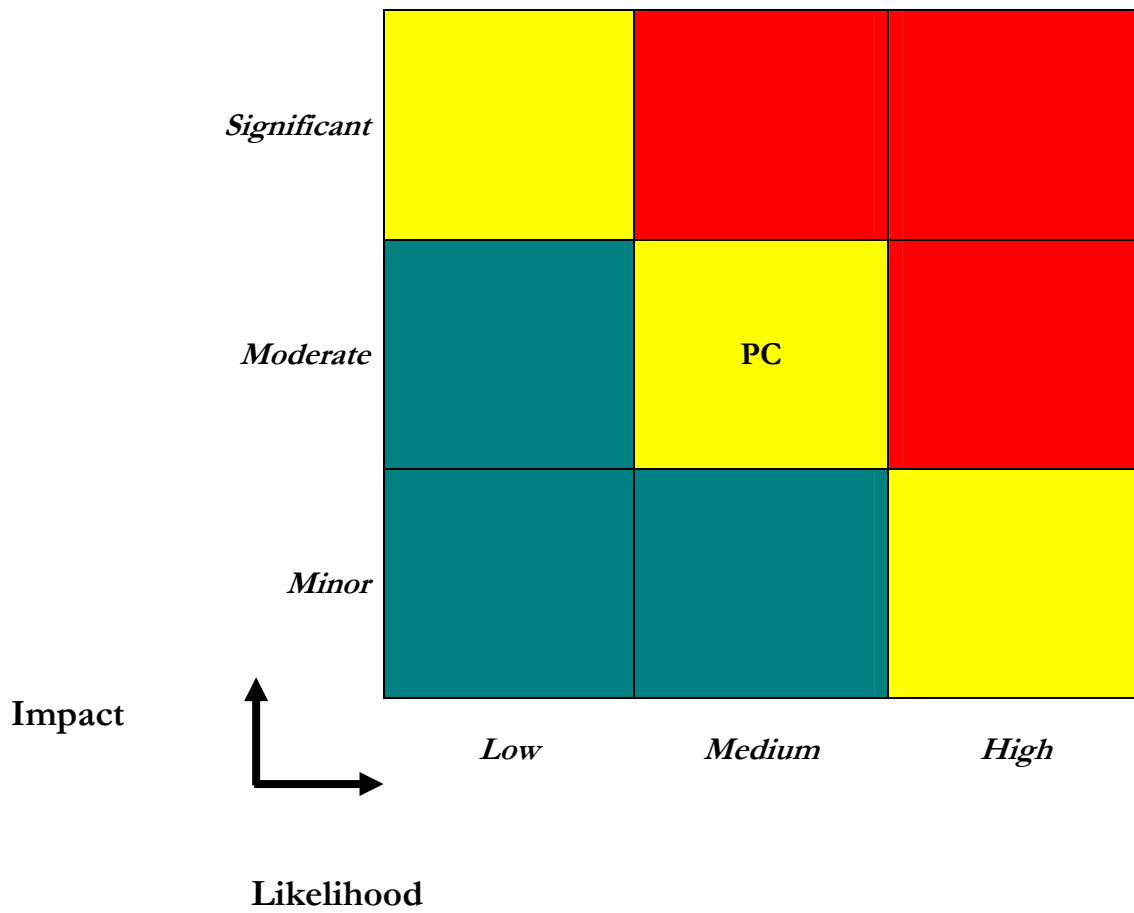
- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood of occurrence suggests that the risk has a moderate probability of occurrence.
- A high likelihood of occurrence suggests that the risk is likely to occur, despite the current risk management practices in place.

We have developed the risk assessment around significant financial transaction cycles as a means by which the associated risks can be easily understood and managed. The Summary of Internal Control Recommendations section of this report presents recommendations with more detail information regarding criticality and implementation timeliness. This report includes risk assessment procedures performed on the Purchasing Card Program for the year ending June 30, 2013.

BUFFALO CITY SCHOOL DISTRICT

Risk Assessment – Purchasing Card Program

Risk Management Tolerance Model



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Risk Assessment – Purchasing Card Program

Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
PC	<p>We noted moderate overall risk in the Purchasing Card Program. Risks occur due to the following:</p> <ul style="list-style-type: none">• Underutilization of general ledger integration functions of Bank of America works platform.• Lack of cross-training regarding key Purchase Card controls.• Timely submission of supporting documentation for review and approval	Moderate	Medium

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**Summary of Internal Control Recommendations –
Purchasing Card Program**

BUFFALO CITY SCHOOL DISTRICT
*Summary of Internal Control Recommendations –
Purchasing Card Program
For the Year Ending June 30, 2013*

Overview

Internal control recommendations represent those areas that afford department heads of the District the opportunity to improve financial reporting and internal controls, to better safeguard District assets, and/or to more efficiently or accurately record, summarize, and report financial transactions and information. They also represent those areas that may improve efficiency of operations and accounting functions, potentially resulting in costs savings.

We have provided a criticality rating and an implementation timeline for each internal control recommendation and business opportunity. Criticality ratings considered were urgent, important, and routine. The implementation timelines considered were short-term and long-term, reflecting the effort and time required to implement the applicable recommendation while factoring in the criticality assigned thereto.

As a result of our procedures performed for the health insurance cycle, there were three total recommendations. The criticality and timeline for the recommendations is as follows:

Internal Control Area	Number of Recommendations	Criticality			Timeline	
		Urgent	Important	Routine	Short Term	Long Term
Purchase Cards (PC)	3	-	3	-	2	1
Total Recommendations	3	-	3	-	2	1

Timeline – each of the detail findings includes a timeline reference of either “short-term” or “long-term”. Short-term refers to findings that we believe can be corrected within one year. Long-term refers to findings that may require changes to organization, systems, or procedures that may require over one year to effectuate the change.

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Detail Findings and Recommendations

Buffalo City School District
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Purchasing Card Program

Recommendation #PC1

Criticality: Important

Timeline: Short-term

The version of Munis currently utilized by the District does not have the required capabilities to integrate the general ledger (“g/l”) functions of the Bank of America (“BofA”) Works platform. These functions have the potential to provide the District with operating efficiencies while maintaining strong controls over purchases. Through discussions with District management, MUNIS version 9.4 has the required capabilities to integrate the g/l with the BofA works platform.

We recommend that the District upgrade to Munis version 9.4 to capitalize on the full benefits and capabilities of the BofA works platform.

Response:

The District has upgraded to Munis version 9.4. With this upgrade the District will be able to import transactional data directly from Bank of America’s Works system; this could not be done with the prior version of Munis. This will allow the District to replace the current process of creating redundant purchase orders to record procurement card transactions in Munis—eliminating the use of these purchase orders will improve the efficiency of the process. It is anticipated that the District will begin transitioning to the new import process in December 2013.

Recommendation #PC2

Criticality: Important

Timeline: Long-term

Currently, three District employees have administrative rights in the BofA Works platform. However, there are certain key functions of the program that only one employee is currently involved. These functions include but are not limited to the following:

- Setting up user groups and profiles
- Establishing and adjusting card limits
- Restricting certain purchases
- Adding new vendors
- Accumulating and reviewing receipts
- Reconciling card statements with receipts

We recommend that the District review the requirements for these key functions and consider cross-training in these areas. This training may include a period of time for new staff to be educated in both the day-to-day and nonstandard procedures and tasks that accompanies these functions.

Additionally, the District should explore Bank of America’s online resources available to help users navigate the works platform, including web-based and instructor led training.

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Response:

Setting up user groups and profiles, establishing and adjusting card limits, restricting certain purchases and adding new vendors – The Director of Purchase and the Assistant Director of Purchase will be cross-trained and be able to serve in these functions.

Accumulating and reviewing receipts – Most cardholders have an administrative assistant that assists or is responsible for accumulating and reviewing their receipts, so in most instances, there are two individuals at the departmental level that are involved. Some cardholders perform these functions alone and have no other backup in their department. All cardholders will be asked to develop a contingency plan for an instance where they or their administrative assistant are out of the office for an extended period of time. This contingency plan will be requested as part of a re-application process for all cardholders to ensure compliance.

Reconciling card statements with receipts – The Audit Department has two individuals that can perform the daily and monthly processing. They alternate functions periodically to keep in practice.

Recommendation #PC3

Criticality: Important

Timeline: Short-term

Based on our review of the Purchasing Card process, we ascertained that the number of card users ranged from approximately 15 to 20 per month. We also noted that the Accounts Payable and Audit function has set a structured audit schedule from the point of receiving monthly statements, to obtaining supporting documentation from departments, to reviewing and approving documentation, and to final payment. As noted in PC2, only one person is responsible for reconciling the total monthly activity for the Purchasing Card Program. Therefore, the timely submission of receipts from departments is essential to maintaining effective controls over this process.

We recommend that District set and enforce strict deadlines for the submission of receipts from departments. As the District expands this program to more users, timely submission will be become increasingly important in maintaining strong internal controls over the Purchasing Card process.

Response:

The District recognizes the importance of having strict deadlines and has procedures in place that require cardholders to review their transactions and accumulate all receipts on a daily basis and sign off on them (or dispute if necessary) each day. On the first day of each new month, when the statements are forwarded to the cardholders, they are instructed to consolidate all the work they did during the month and turn in their approved statements with all receipts by a given date, usually around the 10th of the month. The Audit department follows up at least weekly with each cardholder reminding them of any open items they must complete. Even with these procedures, there still are cardholders that are late in submitting requested documentation. To better enforce the deadlines, procurement cards will be suspended for any cardholder that fails to turn in their statement and receipts before the next statement is issued.