

BUFFALO CITY SCHOOL DISTRICT

Risk Assessment – Inventory Acquisition and Management Cycle

Findings and Recommendations

For the Fiscal Year Ended June 30, 2015

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Inventory Acquisition and Management Cycle
For the Fiscal Year Ended June 30, 2015
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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 Inventory Acquisition and Management Cycle 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 inquiries, observations, and tests of internal controls performed during the 2014-2015 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 – Inventory Acquisition and Management Cycle section of the report analyzes the significant risks and findings that were identified during our engagement.

For purposes of this report, an 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 findings 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 8, 2016

**Risk Assessment –
Inventory Acquisition and Management Cycle**

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Inventory Acquisition and Management Cycle
For the Fiscal Year Ended June 30, 2015

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 important implications on the District.
- A significant impact suggests that the risk would have important implications on the District.

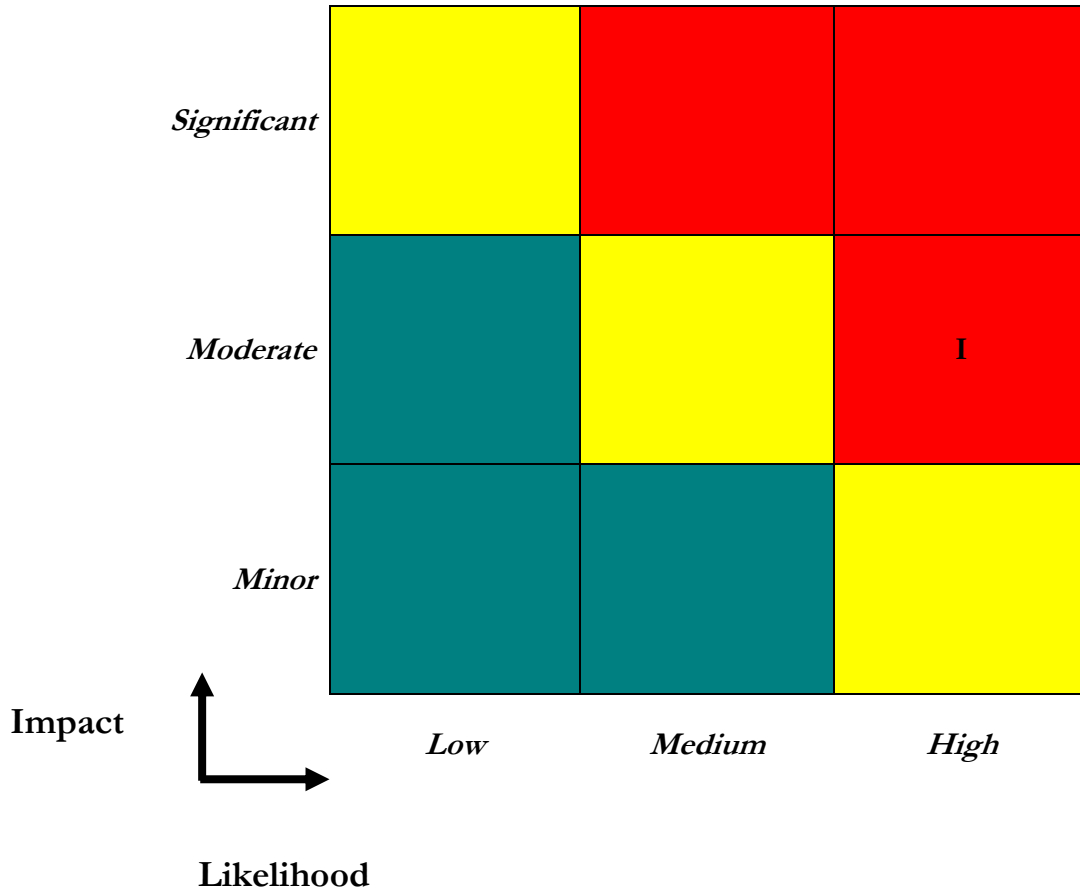
Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood suggests that the risk has a moderate probability of occurrence.
- A high likelihood 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-Inventory Acquisition and Management Cycle section of this report presents recommendations with more detailed information regarding criticality and implementation timeliness. This report includes risk assessment procedures performed on the Inventory Acquisition and Management Cycle during the fiscal year ended June 30, 2015.

BUFFALO CITY SCHOOL DISTRICT
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Risk Management Tolerance Model



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Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
I	We noted moderate to high overall risk in the Inventory Acquisition and Management Cycle. Risks occur due to the following: <ul style="list-style-type: none">▪ No Inventory Supervisor or Central Inventory Management at the Service Center▪ No standard inventory software utilized throughout all departments of the Service Center▪ Variances noted between MUNIS software inventory records and physical counts▪ Existence of obsolete inventory▪ No formal process in regards to removal of obsolete inventory▪ Lack of physical safeguards within areas of the Service Center	Moderate	High

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**Summary of Internal Control Recommendations –
Inventory Acquisition and Management Cycle**

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Inventory Acquisition and Management Cycle
For the Fiscal Year Ended June 30, 2015

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 Inventory Acquisition and Management Cycle, there were 9 total recommendations. The criticality and timeline for the recommendations are as follows:

Internal Control Area	Number of Recommendations	Criticality			Timeline	
		Urgent	Important	Routine	Short-Term	Long-Term
Inventory	9	2	5	2	6	3
Recommendations	9	2	5	2	6	3

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.

Criticality – Each of the detail findings includes a severity reference of either “urgent”, “important” or “routine”. Urgent refers to findings that we believe are of the highest severity. Important refers to findings that we believe are medium severity. Routine refers to findings that we believe are low severity.

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**Detail Findings and Recommendations –
Inventory Acquisition and Management Cycle**

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Inventory Acquisition and Management Cycle
For the Fiscal Year Ended June 30, 2015

Inventory Acquisition and Management Cycle (I)

Recommendation #11

Criticality: Important

Timeline: Short-Term

During our walkthrough of inventory located at the Service Center facility within the inventory and supply departments, we noted the following:

- Obsolete items on hand, such as incompatible ink cartridges, expired child safety seats and excess steel rods and other metal objects that do not appear to have any applicable use.
- Inventory which appeared to be unused included copper tubing fixtures for plumbers and miscellaneous items on the stockroom floor.
- Boxes of paper were held in several different locations (instead of one designated area) of the warehouse. Additionally, items were mixed with unrelated inventory items that were consistently used. For example, donated art-kits were located in the middle of the main warehouse floor alongside donated car seats.

We recommend that the inventory noted herein, as well as any additional obsolete inventory at the Service Center, be sold or disposed of. We recommend that inventory items are properly maintained and organized on the warehouse floor. It would be beneficial to hold all goods similar in nature in one area to make sure the entire inventory is properly counted for.

Response:

The District plans to take a pro-active approach regarding obsolete inventory in future years. During the 2014-2015 fiscal year, the District began implementing live auctions of obsolete inventory. The live auctions are held utilizing a third-party vendor, Cash Realty & Auctions LLC. As this is the initial year of implementation, the process is still a work in progress.

The Board plans on organizing and accounting for all inventories that are similar in nature to a designated area. As the auctions are eliminating obsolete inventory and allowing for further space, accounting for inventory in similar areas will be more attainable. In addition, the Board has hired Allied Waste to dispose of items that are not recyclable or able to auction.

The Trades shops are beginning to utilize an inventory tracking module made by School Dude, the vendor that makes the District's work ticket system. This system will automatically integrate inventory transactions to the work tickets completed; initial results are promising.

Recommendation #12

Criticality: Important

Timeline: Short-Term

We performed testing on inventory counts at the Service Center warehouse within the inventory and supply departments. We compared interim and year-end inventory counts per the MUNIS system to actual inventory on hand. For the interim physical inventory count we randomly selected a sample of 14 items, of which 7 of the items did not match the MUNIS records. For the year-end count we selected a sample of 10 items, of which 3 did not match the MUNIS records.

Additionally, we noted during the year-end physical inventory process that there was no cut-off period for supplies being ordered and received which can lead to potential inaccuracy of the inventory counts.

We recommend that the District implement controls with regards to routine physical inventory counts. All employees responsible for the counts should be informed, at the minimum, a week in advance. When new supplies are purchased and distributed, they should be tracked. Further, random audits should be conducted throughout the year to ensure department accuracy.

Response:

The District plans on implementing a process for conducting a periodic physical inventory count; whereby, variances between MUNIS and inventory on-hand will be investigated and reconciled in a timely manner.

Recommendation #13

Criticality: Urgent

Timeline: Short-Term

During our walkthrough of inventory located at the Service Center facility, we noted boxes of potentially confidential information which were marked “shred up to the year 1994”, but remained at the Service Center. In addition, these potentially confidential records are not safeguarded and anyone with access to the Service Center warehouse could view them.

We recommend that these records either be shredded or secured in a locked area.

Response:

The District plans to implement further controls to ensure shredding of confidential information is performed in a timely fashion. The District is also exploring the possibility of adding a locked gate for all confidential files in storage. Additionally, the Division Heads Committee is analyzing the appropriate reporting structure for Records Management and may propose changes.

Recommendation #14

Criticality: Important

Timeline: Long Term

Subsequent to the retirement of the previous Supervisor of Inventory, a replacement has not been appointed; therefore, there is no supervisory position to act as a liaison and manage inventory between different departments at the Service Center. As such, there appears to be a lack of communication between various departments in the Service Center regarding roles and responsibilities of certain positions, and the enforcement thereof. Having someone in charge of the inventory maintenance at the Service Center will ensure that important tasks are performed, such as conducting periodic physical inventory counts, disposing of obsolete items and reconciling to MUNIS records.

We recommend that the District reviews its options to fulfill this role or establish a standard inventory system which integrates the inventories within all areas of the Service Center.

Response:

Management is exploring the possibility of creating a new supervisor position that would encompass the duties of the former Supervisor of Inventory and may include additional duties, as part of the wider reorganization of the Service Center, under the new Chief Operating Officer.

Recommendation #15

Criticality: Routine

Timeline: Short-Term

In performing our walkthrough of the Service Center, we noted that there is inadequate lighting on the warehouse floor. This creates a potential safety hazard. In addition, inadequate lighting could cause inventory to be overlooked and therefore unused, creating the appearance that additional inventory needs to be purchased.

We recommend that there be additional lighting installed on the warehouse floor. LED options should be evaluated to help reduce electricity costs.

Response:

The District plans to consider other lighting options. This is not only for the employee benefit but, also cuts down on safety hazards.

Recommendation #16

Criticality: Urgent

Timeline: Long-Term

Within the Service Center we observed various areas that lacked physical safeguards. These include, but are not limited to: compressed gas steel cans, unlocked service vehicles, a large quantity of steel for trade usage, and high cost tools. Lastly, all of the areas lacked security cameras.

We recommend that the District installs adequate physical safeguards throughout the Service Center, including each trades garage. These safeguards may include security cameras, fences with locked door access, and/or swipe cards for access points.

Response:

The District plans to build a separate area for the compressed gas steel cans, which will probably be located outside, away from other inventory. The District has planned initiatives that include installing security gates with security card access.

Recommendation #17

Criticality: Routine

Timeline: Short-Term

Currently, the Service Center utilizes pick tickets printed from MUNIS which contain supply orders made by the schools and are used to pull inventory. We noted that they are not in numerical order by section. Having the items out of sequence may create a delay in shipments.

In addition, the computer system will automatically include items that are on back-order on the printed pick tickets. Therefore, when the employees try to fill the order they are looking for items the Service Center does not have on-hand.

We recommend that the District work with its system provider to allow MUNIS to print the items on the pick tickets in numerical sequence. Also, items that are back-ordered should either be printed on a separate report or flagged to ensure all items on the pick ticket are in stock.

Response:

The Trades shops are beginning to utilize an inventory tracking module made by School Dude. This system will automatically integrate inventory transactions to the work tickets completed; initial results are promising.

Recommendation #18

Criticality: Important

Timeline: Long-Term

Currently, the Trades Departments utilize the School Dude system to maintain work orders. The work orders include supplies purchased for the specific job. However, unlike the MUNIS system, School Dude does not keep track of inventory. Lastly, School Dude and MUNIS are not compatible and do not integrate.

We recommend that there be one system for all inventory maintenance, and/or School Dude and MUNIS integrate for better maintenance.

Response:

The Trades shops are beginning to utilize an inventory tracking module made by School Dude. This system will automatically integrate inventory transactions to the work tickets completed; initial results are promising.

Recommendation #19

Criticality: Important

Timeline: Short-Term

It was noted that Purchasing Cards (“P-Cards”) are utilized to purchase supplies throughout the Service Center. As part of the District’s internal control over P-Card purchases, the Accounts Payable Department performs random audits on monthly purchases. However, there was no documentation provided indicating random audits were performed subsequent to June 2014. Additionally, the random audits provided through June 2014 did not indicate the procedures performed or conclusions reached on the sample tested.

We recommend that random P-Card audits are documented throughout the year. In addition, the District should document the specific procedures performed and conclusions reached. Procedures should include items described in the Buffalo Public School P-Card Policies as follows:

- Ensuring the card is not utilized by another individual, other than the cardholder.
- Reviewing statements for split purchases to circumvent the single transaction limits of the P-card.
- Assessing the purchase made is not for personal or unauthorized purpose.
- Evaluating the documentation to determine if all required itemized receipts and/or documentation is attached.
- Documenting non-business use of P-cards – in memo form, directed to the Chief Financial Officer, Financial Controller, P-Card Administrator and cardholder’s Department Head.
- Requesting reimbursement from employees for personal or unauthorized use of P-Cards.

Response:

The District has corrected the problems noted above by requiring a quarterly report prepared by the Audit department. This document will summarize all reportable findings from the previous quarter.

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