

BUFFALO CITY SCHOOL DISTRICT
*Risk Assessment – Purchasing, Accounts Payable
and Disbursements Cycle*
Findings and Recommendations
For the Fiscal Year Ended June 30, 2016

BUFFALO CITY SCHOOL DISTRICT
*Risk Assessment – Purchasing Accounts Payable
and Disbursement Cycle*
For the Fiscal Year Ended June 30, 2016
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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, Accounts Payable and Disbursement 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 inquiry and observations, and tests of internal controls performed during the 2015 - 2016 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, Accounts Payable and Disbursement Cycle 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 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

October 5, 2016

**Risk Assessment –
Purchasing, Accounts Payable
and Disbursement Cycle**

BUFFALO CITY SCHOOL DISTRICT
*Risk Assessment – Purchasing, Accounts Payable
and Disbursement Cycle*
For the Fiscal Year Ended June 30, 2016

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

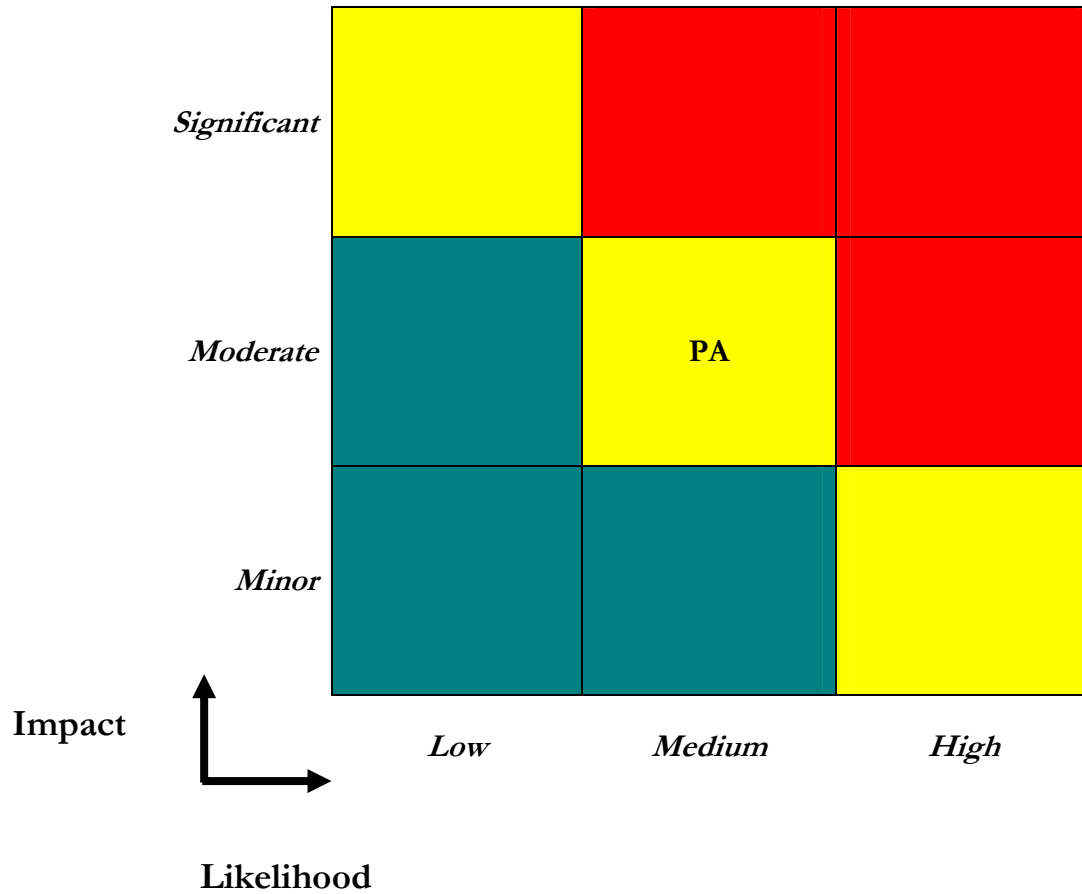
Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

- 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 - Purchasing, Accounts Payable and Disbursement 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 Purchasing, Accounts Payable and Disbursement Cycle during the fiscal year ending June 30, 2016.

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Risk Management Tolerance Model



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Risk Assessment Matrix

<u>Cycles</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
PA	<p>We noted moderate overall risk in the Purchasing, Accounts Payable and Disbursements. Risks occur due to the following:</p> <ul style="list-style-type: none">• Process for assigning commodity codes on requisitions• Process for bid evaluations• Documentation requirements for purchase orders and petty cash reimbursements	Moderate	Medium

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**Summary of Internal Control Recommendations –
Purchasing, Accounts Payable
and Disbursement Cycle**

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Purchasing, Accounts Payable
and Disbursement Cycle
For the Fiscal Year Ended June 30, 2016

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 Purchasing, Accounts Payable and Disbursement Cycle, there were 7 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
Purchasing, AP, and Disb. Cycle (PA)	7	0	4	3	5	2
Recommendations	7	0	4	3	5	2

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 –
Purchasing, Accounts Payable
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For the Fiscal Year Ended June 30, 2016

Purchasing, Accounts Payable and Disbursements (PA)

Recommendation #PA1

Criticality: Important

Timeline: Short-term

Based on our inquiries and understanding of the District’s purchase requisition process, certain types of commodity codes are pre-assigned to Purchasing Department employees (“buyers”) for review and to generate a purchase order. However, we noted that the MUNIS system does not require commodity codes to be assigned to requisitions in order to be submitted. Without a specific commodity code attached, requisitions are not assigned to a specific buyer and sent into a “ghost que”. Unless, this “ghost que” is regularly checked, the purchasing process could be significantly delayed.

We recommend that the District inquire about a possible automated control in MUNIS that would not allow a requisition to be processed without a specific commodity code assigned.

Response:

The District has met with the third-party providers for the MUNIS system. The third-party is in the process of fixing this issue.

Recommendation #PA2

Criticality: Important

Timeline: Long-term

Based on our inquiries, certain District purchases that require competitive bids or proposals are technical in nature. In order to document and support the decision to select a particular vendor, an evaluation matrix is often utilized. However, many of the matrices used do not include written criteria to support a basis for scoring bids. An effective review over this process would allow the Purchasing Department to review bid results and easily understand why a specific vendor was chosen.

We recommend that the Purchasing formalize and communicate this process with Departments. For all bids that are technical in nature, written criteria for matrices should be documented within bid results.

Response:

The District agrees with this recommendation and plans to have further interaction with departments when reviewing bids technical in nature. In addition, the District will explore implementing a clause within the purchasing policy to include written criteria for scoring matrixes to be utilized. The RFP evaluation process is being assessed to determine if it can be standardized District-wide, and if it would be appropriate to include an independent member on each evaluation team to ensure there is no bias in the evaluation scoring.

Recommendation #PA3

Criticality: Routine

Timeline: Short-term

Based on our sample testing of Service Center expenditures, we noted 4 out of 10 items did not indicate approval of the department head on the MUNIS system. Without proper approval and review, the District is at risk for unauthorized purchases to occur and not otherwise be detected.

We recommend that all department heads sign off on purchases requested within the MUNIS system. This will lead to an audit trail and in turn will decrease the possibility of unauthorized purchases.

Response:

The District will review the current process of approval levels for the Service Center and discuss this with department heads to improve the electronic approval process on the MUNIS system for all Service Center expenditures.

Recommendation #PA4

Criticality: Important

Timeline: Short-term

Based on our sample testing of travel expenditures, we noted 3 out of 10 items chosen did not include documentation describing the purpose of the travel or conference.

We recommend that all travel requests include documentation to substantiate the purpose of the conference prior to approval. For example, the District would require a pamphlet, brochure or narrative for all conference traveling. The individual responsible for obtaining the narratives should evaluate whether travel or conference was of commensurate value to the District compared to the amount spent, and if the conference should be attended in the subsequent year.

Response:

The District now requires all travel to be approved by a cabinet level official, who is responsible for approving the travel based on the purpose; the CFO, who confirms funding is available; and the Superintendent to review the overall appropriateness of the travel. Travel requests that are incomplete will be returned to the preparer.

Recommendation #PA5

Criticality: Important

Timeline: Long-term

It was noted that throughout testing for vendor maintenance of the 10 samples chosen, 3 did not have a W-9 Request for Taxpayer Identification Number and Certification attached within the vendor file on MUNIS. However, we obtained the physical copy of the W-9 and noted it was not scanned into the MUNIS system because it was an older vendor. Without a valid W-9 attached, the District is at risk of potentially distributing funds to shell corporation.

We recommend that the District scan all W-9's into the MUNIS system for all vendors. This will ensure that all vendors are valid.

Response:

The District always obtains W-9's prior to adding a new vendor and those W-9's are maintained in either the original paper vendor file or within Munis. The District is in process of reviewing all vendor files and attaching all pertinent documentation electronically within Munis. This process will eventually eliminate the need to keep paper vendor files.

Recommendation #PA6

Criticality: Routine

Timeline: Short-term

Based on our sample testing of lease expenditures, we noted that 6 lease payments out of our sample of 10 did not have the lease agreement and/or contract attached to the purchase order.

We recommend that all lease agreements be attached to all purchase orders involving lease payments to vendors including, purchase orders that are a continuation of a prior periods lease.

Response:

The District is receptive of this recommendation. The Director of Purchasing has informed all the appropriate individuals to attach lease agreements to purchase orders. Additionally, purchase orders are being reviewed to ensure lease agreements are attached.

Recommendation #PA7

Criticality: Routine

Timeline: Short-term

Based on our sample testing employee reimbursements, 1 out of 5 items tested included a reimbursement for an ink cartridge replacement. Employee reimbursements are generally for items such as travel, meals, lodging, etc. As ink cartridges are an office supply, they should be purchased through the normal procurement process.

We recommend that all employee reimbursements are for items that would not be appropriate to process through a purchase order. All other items should be denied when requested and employees should follow the procurement process for items such as office supplies.

Response:

The District has reiterated the purpose of employee reimbursements. The Claims Auditor's review includes reviewing all employee reimbursements to ensure they are appropriate.