



Riverhead Central School District Vendor Master File

Report of Examination

Period Covered:

July 1, 2015 – March 31, 2017

2017M-139



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Riverhead Central School District, entitled Vendor Master File. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Riverhead Central School (District) is located in the Towns of Brookhaven, Riverhead and Southampton in Suffolk County. The District is governed by an elected seven-member Board of Education (Board) that is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Deputy Superintendent and business office staff are responsible for maintaining the District's vendor master file.

The District operates seven schools with approximately 5,500 students and more than 1,200 employees. The District's 2016-17 general fund budgeted appropriations totaled approximately \$130.7 million and were funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to examine the vendor master file for the period July 1, 2015 through March 31, 2017. Our audit addressed the following related question:

- Did District officials adequately maintain the vendor master file?

Scope and Methodology

We examined the District's vendor master file for the period July 1, 2015 through March 31, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Vendor Master File

In a computerized accounting system, the vendor master file contains a list of vendors from which District employees are permitted to purchase goods and services. Any changes to the vendor master file should be properly authorized. In addition, it is important that District officials ensure that duplicate vendor names and vendors that the District no longer does business with are deactivated. District management should establish procedures to limit user access to the vendor master file to only those individuals who are authorized to make changes to the vendor list.

District officials need to improve their maintenance of the vendor master file. Officials have not established written policies or procedures for maintaining its vendor master file. The Deputy Superintendent and business office staff are responsible for adding vendors and changing vendor information within the vendor master file.

District officials told us they request that vendors provide Internal Revenue Service form W-9 (Request for Taxpayer Identification Number and Certification) and a certificate of liability, if applicable, that must be remitted to the District's purchasing agent before the vendor's name is added to the master file. However, this procedure was not always followed. Furthermore, officials did not have any procedures in place to determine whether a vendor name is already included in the master file before creating a new entry and did not periodically review and update existing entries. As a result, the District's master vendor list is not up-to-date.

The District's vendor master file contained the names of 1,798 active vendors who received payments during our audit period. We reviewed the vendor master list and determined that 16 vendor names were duplicated multiple times and each of these vendors had from two to five different vendor identification numbers, representing 41 of the District's active vendors.

We reviewed 102 invoices totaling approximately \$478,000 from 66¹ vendors and found that all of these invoices represented valid claims. However, District officials did not have a W-9 on file for nine of these vendors. Without W-9s on file for all vendors, the District has not

¹ See Appendix B for details of our selection methodology.

complied with federal tax requirements and there is an increased risk that payments may be made to fictitious vendors. Furthermore, not having procedures in place to confirm whether a vendor is already in the system can result in an unmanageable database and inaccurate vendor records, increasing the risk that vendors could be used improperly and that errors could occur and remain undetected.

Recommendations

District officials should:

1. Develop and implement written procedures for maintaining the vendor master file.
2. Review the vendor master file to identify duplicate vendors and deactivate any unnecessary accounts.
3. Verify that a vendor name is not already listed in the vendor master file before creating a new vendor account.
4. Periodically review the vendor master file to ensure that vendor information is accurate and updated as needed.
5. Ensure that W-9s are obtained from all vendors.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

RIVERHEAD CENTRAL SCHOOL DISTRICT

700 Osborn Avenue
Riverhead, NY 11901-2996
FAX (631) 369-6816 · www.riverhead.net

Dr. Auerelia L. Henriquez
Superintendent of Schools
(631) 369-6717



Sam M. Schneider
Deputy Superintendent
(631) 369-6708

Christine Tona
Assistant Superintendent for Curriculum & Instruction
(631) 369-6714

September 18, 2017

Reference: Examination 2017M-139

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

On behalf of the Riverhead Central School District Board of Education, we write to acknowledge receipt of the audit conducted by the staff of the New York State Comptroller. The examiners were with us for several weeks in the spring and summer and we appreciated the perspective and guidance they provided during their time here.

We are pleased with your audit's findings that, "We reviewed 102 invoices totaling approximately \$478,000 from 66 vendors and found that all of these invoices represented valid claims."

We acknowledge your findings that we need to reform our management of the vendor master file and we have already taken steps as part of that process. For example, letters were sent to all vendors instructing them to provide us with a copy of their W-9 form and we intend to repeat that process on an annual basis. We also have taken steps to inactivate vendors that may be considered duplicative in our master file. We do note that in some of the instances, our vendor master file contained multiple entries because certain vendors have subsidiary and closely associated companies and such organizations often require us to remit separate checks to their separate divisions. A formal Corrective Action Plan will be presented to the Board of Education for their adoption and filed with your office next month.

We acknowledge your findings that in nine instances, we did not have a W-9 on file for a vendor. We note for factual purposes that six of these vendors are associations of high school athletic coaches, or similar fields, that exist to provide students with competitive or extra-curricular opportunities. Monies paid to these vendors, generally in the range of \$120 to \$360, are for entry fees for various meets and competitions. These organizations have no permanent staff and rotate leadership among the part-time coaches in the sport. Nevertheless, we accept the findings of your audit and we will be sure to collect the W-9 form for each and every vendor going forward.

Aquebogue Elementary School • Phillips Avenue Elementary School • Pulaski Street Elementary School • Riley Avenue Elementary School
Roanoke Avenue Elementary School • Riverhead Middle School • Riverhead High School

Our goal is to ensure that the taxpayers of the Riverhead Central School District have the utmost confidence in the financial stewardship that the Board of Education exercises over funds entrusted to the District by the community. We thank the Office of the New York State Comptroller for their able assistance in furthering that objective through this audit.

Yours truly,



Dr. Aurelia L. Henriquez



Sam M. Schneider

sms/nr

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed the District’s policies and procedures over the audit of claims and purchasing.
- We interviewed District personnel and the claims auditor to obtain an understanding of claims processing and the maintenance of their vendor master file.
- We reviewed the master vendor list for duplicate vendors.
- We judgmentally selected 66 of the District’s 1,798 vendor names, using ACL data obtained to select vendors who were also District employees and those with more than one vendor identification number.
- Using vendor history reports for our sample, we judgmentally selected 102 invoices that appeared to be unusual, including payments sent to employee residences. We reviewed these invoices to determine whether they represented actual District claims, were adequately itemized, properly authorized and supported, reported accurately on a warrant and reviewed for proper authorization of payment and final approval by the claims auditor.
- We obtained W-9s and certificates of liability (if applicable) for our sample of vendors to determine whether the District had proper documentation on file to conduct business with these vendors.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
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