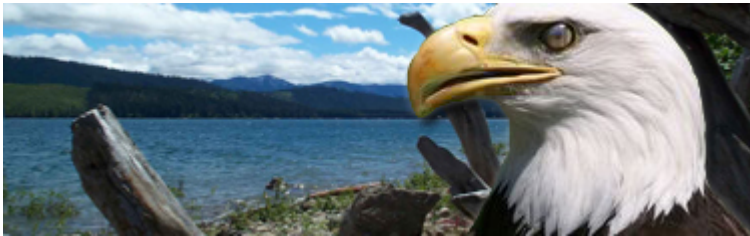


Evans-Brant Central School District



Agreed Upon Procedures System Test of Central Store Inventory

October 2013

BAHGAT & LAURITO-BAHGAT, CPAs, P.C.

Providing The Tools For Financial Success!



INTERNAL AUDIT

Phase II: System Test – Central Store Inventory

Agreed Upon Procedures





INTERNAL AUDIT

Phase II: System Test of Central Store Inventory

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This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

Independent Accountants' Report on Applying Agreed-upon Procedures

To the Audit Committee of
Evans-Brant Central School District:

We have performed the procedures contained in the enclosure to this letter, which were agreed to by the audit committee and management of the Evans-Brant Central School District, solely to assist you with performing certain internal audit procedures of the Evans-Brant Central School District as of October 18, 2013. We conducted our work in accordance with the U. S. generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance when performing and reporting the results of agreed-upon procedures.

You are responsible for the adequacy of these procedures to meet your objectives and we make no representation in that respect. The procedures we agreed to perform consist of various tests of cash disbursements. The enclosure contains the agreed-upon procedures and our results.

All procedures were performed as of October 23, 2013, unless otherwise noted. The procedures and findings are described on pages 5 – 17.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the District, the Board of Education and the Audit Committee of the Evans-Brant Central School District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

**Bahgat & Laurito-Bahgat,
Certified Public Accountants, P.C.**

October 23, 2013

Description of Central Store

Annually, the Business Office requests all Departments, including the Central Store, in need of various supplies to make note of the items that they would like ordered for the following school year. The Business Office compiles the list of items that have been requested then bids the items to receive the best purchase price available on the requested items. The items requested are not compared to the Central Store inventory to see if the District already has the items in stock. After the bids are received and the items that the District will be purchasing are selected, a purchase order is created and sent for approval through WinCap to the Purchasing Agent. The District receives quotes from various vendors for items purchased outside of the bidding process. Once the order is approved, the Accounts Payable Clerk is responsible for placing all orders. Deliveries are made to the District on a daily basis. The District's receiving dock is located at the same location as the Central Store, and all items are received there, except for those ordered by the Transportation Department. The product is received by the Central Store Supervisor, who initials the packing slip or purchase order after determining that the items received are in agreement with the purchase order and packing slip.

After receipt of Central Store items, the Central Store Supervisor enters the quantity received, and the unit price of the items into the K10 inventory system. The Central Store utilizes the K10 perpetual inventory system, which was designed specifically for the District, to monitor the inventory that is stored in the Central Store. In addition to maintaining the perpetual inventory system, the District also performs an annual physical inventory in December of each year.

Items that are stored in the Central Store are distributed to District staff through an approved "pick". A "pick" is the internal term used for items ordered from the Central Store by District staff which are then removed from inventory and distributed to offices or classrooms. The Central Store staff is responsible for removing the picked items from inventory and delivering the items to each District building weekly.

Procedure # 1

We selectively chose 55 items listed on the K10 perpetual inventory system and tested the items for the following:

- Performed a physical inventory count of the item and confirmed that the count matched the perpetual inventory kept in the K10 system.
- Obtained a listing of the activity (external orders and internal picks) for the fiscal year on the items selected. Reviewed the activity noting the total quantity picked, and compared it to the quantity ordered for the year. Determined if the quantity ordered seemed reasonable based on the picks for the year. If there were no items ordered during the year, determined if the quantity on hand seemed reasonable based on the picks for the year.
- Determined that the proper ordering procedures were followed, whether they were bid appropriately and signed off properly when received. Also determined whether or not the items were entered correctly in the K10 system.

Summary of Results

- ❑ The District maintains a perpetual inventory system for the materials and supplies in the Central Store using the K10 program. There are approximately 1,325 items on the inventory listing in the K10 system, however, 127 of the items listed did not list a quantity on hand. The Central Store staff performs an annual physical inventory during December. Upon inquiry, we noted that the Central Store staff periodically spot checks inventory to ensure that the K10 perpetual inventory system and the physical inventory agree.

Procedure # 1 (continued)

Summary of Results (continued)

Of the 55 items selected for recount, we found 42 items in agreement and 13 discrepancies between the inventory list obtained from the K10 system, and our physical count. Of the 13 discrepancies, the quantity on hand was greater than the quantity listed on the K10 system for 6 items. Upon inquiry, we noted that if returns were received into the Central Store without a pick ticket, they were placed back in stock without recording the return in the K10 system, which would cause quantity on hand to be greater than listed in the K10 system. Of the remaining 7 items, the quantity on hand was less than the quantity listed on the K10 system, and we were unable to determine the reason for the variance.

We were unable to determine if the proper ordering procedures were followed on the selected items because we discovered there is no correlation between the inventory numbers and the vendor item numbers listed on the vendor invoice. We also discovered purchase order numbers cannot be entered into the inventory system. As a result, an audit trail of inventory transactions to determine inventory fluctuation is not available for verification of the activity by inventory item.

Recommendation

We recommend that the District continue its current practice of using a perpetual inventory system, performing an annual physical inventory count, and spot checks in order to maintain an accurate up-to-date listing. We also recommend that an individual from outside of the Central Store oversee the annual physical inventory count. We further recommend that when an item is returned to the Central Store without a pick ticket, one is generated, to ensure that item is added back to the K10 system. This will reduce overage variances that were found during our fieldwork.


Procedure # 1 (continued)

District Response

The District will continue its practice of maintaining a perpetual inventory system. The District will consider which employee(s) from outside of the Central Store would be appropriate to oversee the annual physical inventory process. The District will also investigate ways for the Central Store staff to adjust current inventory levels for items returned to Central Store without an order ticket.

Summary of Results

- ❑ ***Inventory Reports:*** During the course of our fieldwork, we noted that the Central Store was unable to produce certain inventory reports because of limitations of the K10 inventory program. The system was unable to produce an item usage report that listed items that had zero usage for the selected time period. The K10 inventory program will produce an item history report, however, the report lists the activity for each item by picks and re-orders, not by date. The item history report does not list the balance on hand for each item, nor does it list if the item has been adjusted when the physical inventory was completed. The system does not provide a report that reflects the historical price of the items. Currently, multiple reports would be necessary to gather data necessary for analyzing usage and re-ordering.



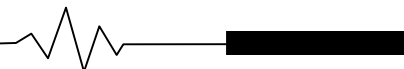
Procedure # 1 (continued)


Recommendation

An item usage report and a zero usage item report would be helpful in analyzing usage of items, determining obsolete items, and assisting in the re-order process. Entering the purchase order number and vendor in the K10 system, previously mentioned on page 7, would allow the District to track items from the K10 inventory system to WinCap. Since the K10 program was designed specifically for the District, we recommend that the District inquire of the software vendor to see if the current software can be modified to alleviate these limitations. If the current software can not be modified we recommend that the District consider purchasing different software that would not have these limitations.

District Response

The District has evaluated the option of having additional programming completed for the current software, and deemed it not to be cost effective. The District's Technology Director was asked to evaluate alternative software programs, to identify a suitable software program with the goal to migrate the District's Central Store function to the new software. The District consulted with the Western New York Regional Information Center (WNYRIC) at Erie 1 BOCES about programs. The District purchases a number of central data processing solutions from the WNYRIC, and gets its program support from the WNYRIC for these programs.



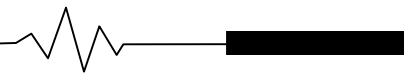


Procedure # 1 (continued)

District Response (continued)

The WNYRIC personnel recommended and demonstrated a solution named "Que Centre", which is used in private industry and is offered and supported by the WNYRIC. In evaluating the software, the District determined that not only would the program be suitable for its Central Store application, but other program modules for Maintenance Requests, Technology Requests, Transportation (field & sports trips) Requests, Building Use Requests and Preventive Maintenance Scheduling for systems and equipment were also offered. The District has contracted with the WNYRIC to implement all of the above named software solutions through Que Centre in the 2013-14 year, with the goal of "going live" with all applications for the start of the 2014-15 year.

The Que Centre program will address the findings & recommendations of the auditors. It will also give District employees a "one stop shopping" solution to all of the functions contained in the program, and allow the District to cease several "stand-alone" software programs currently being utilized. The savings from the programs that will no longer be used will offset a large portion of the annual costs of the Que Centre program, and the District will receive BOCES Aid on both the software cost and the maintenance costs paid to Erie 1 BOCES.





Procedure # 1 (continued)

Summary of Results (continued)

- ❑ **Item Quantities and Reordering:** Upon inquiry, we were informed that the District analyzes prior usage and quantity on hand in order to determine the reorder quantity of items that are stored in the Central Store. In an attempt to determine the reasonableness of the reorder quantities for the items within our selection, we examined the usage and reorder quantities of the items for the two prior fiscal years. We noted that there are report limitations within the software as described previously.

We found that 37 of the 55 items tested had quantities ordered during the testing period, or prior to the testing period, that did not seem reasonable based on the average usage of the item. The following examples illustrate inconsistencies in reorder quantities based on usage and quantity on hand.

- 25 of the items tested had usage during the prior two fiscal years, zero orders over the prior two fiscal years, and still had a quantity on hand. One example of this is a label having an average usage of 899.5 over the prior two fiscal years and a quantity on hand at the time of our testing of 1,800. Another example is envelopes with an average usage of 565 over the prior two fiscal years and a quantity on hand at the time of our testing of 2,645. These two examples indicate that a large quantity was ordered prior to the two fiscal years tested as they have a large quantity on hand and no orders over the prior two fiscal years.
- 12 of the items tested had an average usage over the past two years that was higher than the average reorder of that item. One example of this is a dry eraser marker with an average usage over the prior two fiscal years of 961 and an average reorder quantity of 288. Another example is tape with an average usage over the prior two fiscal years of 230 and an average reorder quantity during that period of 108. These two examples also indicate that a large quantity was ordered prior to the two fiscal years tested as the Central Store was able to fill picks amounting to much higher quantities than had been ordered in the two prior fiscal years.



Procedure # 1 (continued)

Recommendation

We recommend that the District review its reorder procedures to determine if the quantities of items being reordered appear reasonable based on prior usage and the quantity on hand.

District Response

The District reviews annual orders to insure that annual orders appear to be reasonable based upon usage. The timing of the annual bidding process and fluctuating needs of departments make it difficult to estimate the annual need for the upcoming year with a high degree of accuracy. Shelf life of the goods are considered, and if the item(s) in question have a long shelf life the District sometimes errs on the side of caution and may “over order” goods. Conversely, if the items have a relatively short shelf life, the District may tend to be more conservative in its estimates, with the rationale that it can always purchase additional items mid year if the reorder quantities prove to be inadequate for the requests from staff.

The District will work with the Que Centre software support team from the WNYRIC to determine if the software can aid the District in projecting needs/reorder quantities for the coming year, based upon past usage. If possible, the District will complete the necessary steps during the software set-up to accomplish this.

Procedure # 2

Determine if there are any obsolete items on the inventory listing. If there are obsolete items, determine if the item was internally picked or ordered externally recently. If the items were ordered recently determine the last time that the item was picked.

Summary of Results

- ❑ **Possible obsolete items:** During the course of our fieldwork, we noted that items marked for deletion did not appear to be removed from inventory on a regular basis. The District considers an item to be obsolete if not used within 3 years. Upon inquiry, we were told that a listing of the items marked for deletion is reviewed annually. At the time of our fieldwork, we were provided a listing of 176 items marked for deletion. We estimated the total value of these items to be \$46,215, based on the original unit cost for each item. Due to the limitation of the reports, we were unable to determine how many items outside of our selection have not been ordered or used since 2010 or earlier. We noted that the District recently began using an outside auction website to try to recover some of the costs of obsolete or unused inventory.

Of the 55 inventory items selected for testing 3 items that were not marked for deletion had zero usage and no orders since 2010 or earlier.

Recommendation

We recommend that the District annually review the items marked for deletion in order to determine obsolete inventory.

In addition to the outside auction website that the District is currently using, we further recommend that the District research other options for recovering a portion of the cost on obsolete or unused inventory.

District Response:

The District has created a new category of items in the current software called "Close-out Specials". Items marked for deletion will be reassigned to this category, and the unit prices for these items will be marked down by 50%. The District's rationale for this is that if the items may be used internally, they will be offered for program use at a reduced cost first. If they remain in stock after being offered for use internally, they will be removed from stock and offered for sale to the highest bidder on the auction website "auctionsinternational.com".


Procedure # 3

We selectively chose 55 Central Store items purchased on 22 checks paid to Dobmeier Janitor Supply, Corr Distributors, Inc., Central Poly Corp., Hillyard Floor Care Supply, William Watson/DMJ Crystal Waters, Scott Electric Supply, Sunshine Lighting, Pyramid School Products, Kurtz Bros., Eaton Office Supply, and School Specialty for the period of July 1 – October 18, 2013, to determine that they followed the proper ordering procedures. We tested the items selected for the following:

- Determined whether they were properly bid, and that a signed receiving document was filed with the vendor packet.
- Compared the unit price listed on the invoices to the bids for each vendor tested. Then compared the vendor unit prices to the Central Store's K10 inventory system to determine if the inventory system prices reflect the current pricing.

Summary of Results

- ☐ We tested 22 disbursements that occurred during the period listed above. We found all items purchased followed the proper bidding procedures. We also noted a signed receiving document with each vendor packet.



Procedure # 3 (continued)

Summary of Results (continued)

- ❑ **Unit prices not updated:** We compared the unit price in the K10 inventory system against the invoices or bids for the items tested, and noted that 51 of the 55 items tested had a unit price in the inventory system that was either higher or lower than the price on the invoice. Upon inquiry, we were advised that the inventory system reflects the most recent unit price paid. Additionally, we noted 53 items having a quantity on hand, that had a unit price of \$0.00

Recommendation

Going forward, we recommend that the District consider updating the unit prices on all purchases made for the purpose of determining if future purchases are competitively priced.

District Response

The District's Central Store personnel will update unit prices for all new purchases moving forward. Items in inventory that do not reflect a unit cost are mostly printer/copier toner cartridges that are provided to the District through its annual maintenance contract with the printer/copier company. The District pays a fee per page to print/copy, and toner cartridges are included in that charge. Toner cartridges are maintained in the Central Store to provide employees an easy way to order/access the cartridges, but individual programs are not charged for the toner cartridges provided.



Additional Observations

- ❑ **Hand records:** During the course of our fieldwork, we noted that on a monthly basis the Central Store staff is keeping a hand record of the picks that are picked during that month. Upon inquiry, we were advised that the Central Store staff is keeping hand records because the program previously crashed and the computerized records for a few years were unable to be recovered. We were also advised that a back up of the K10 program is made on a daily basis.

Recommendation

We recommend that the District discontinue the use of hand records, as this is a duplication of the records being kept by the K10 inventory program.

District Response

The District's Central Store personnel have been directed to cease its maintenance of the paper perpetual inventory system with the implementation of the Que Centre software program. In investigating the existence of the hand records, it was determined that these records have been maintained for many years – even prior to the crash of the existing program. There will be no value in maintaining hand records with the new software program, as the new program is web-based and will not be maintained on the District's file servers. It will be operated through the WNYRIC which has adequate back-up procedures and redundant file servers.

Additional Observations (continued)

- ❑ **Ordering of products outside of Central Store:** During the month of December, the District requests that teachers and District staff make note of the items, such as classroom supplies, that they would like ordered for the following school year. The Business Office then bids the items to receive the best purchase price available on the requested items. During the course of our fieldwork, we noted that several items that are stored in the Central Store are not being requisitioned from the Central Store by District staff, but are being purchased through the bidding process. Additionally, we noted that because of the lack of usage of some of the items from the Central Store, the Central Store staff has marked some of the items for disposal and/or deletion. We also noted duplication in the bidding and ordering of items for teachers and the Central Store.

Recommendation

We recommend that the District consider reassigning some of the bidding duties to the Central Store. After the teachers and staff compile the list of items that they would like ordered for the following school year, those lists could go to the Central Store staff for review and consolidation. The Central Store staff could also analyze the lists comparing the lists to items stocked and ordered through the Central Store to reduce the double ordering of items, and to help streamline the bidding and ordering process.

District Response

The District's Central Store personnel will be utilized to assist the Business Office in the data entry of vendor bid responses. The Business Office will still be responsible for completion of annual bids, but the District will look for ways to utilize the Central Store personnel to assist in completing the process. This may include reviewing staff budget requests for duplicate items, reviewing bid catalogs on the software for duplicate and obsolete items, etc.

Additional Observations (continued)

- ❑ ***Filling orders prior to approval:*** District staff and teachers can order items from the Central Store for their usage. The orders are entered into the K10 system and follow the same approval process as an out of District purchase. The items that are ordered are delivered to the staff and teachers each Friday. Occasionally, District staff and teachers will notify the Central Store that they need some of the items ordered immediately and cannot wait for the items until the order has gone through the approval process. The Central Store is able to print the unapproved order from the K10 system to select the items from the inventory. Upon approval of the order the Central Store then fills the rest of the order and delivers the items with the regularly scheduled deliveries.

Recommendation

All orders delivered by the Central Store to the District staff and teachers should follow the normal approval process.

District Response

The District's Central Store personnel have been directed to cease the practice of filling and shipping Central Store orders that have not yet been approved by program/building administrators and the Purchasing Agent.



Conclusion

As a result of the above listed procedures and findings, it appears that the Central Store and Central Store staff are being underutilized in the procurement procedures of the District. As a result, it appears that the Central Store staff would be able to incorporate additional duties into their workday. If the District is unable to implement the previously listed recommendations, allowing the Central Store staff to assist the District in achieving the most efficient procurement procedures, we recommend that the District consider reducing the services provided by the Central Store and Central Store staff.

District Response

The District is investigating the possibility of relocating its Central Printing and Mailing function from the William T. Hoag Educational Center to the High School basement in proximity to the Central Store. This move would allow the District to share personnel between the two functional areas and thus create a "Central Services" function. Climate control for the copy room would be necessary to control the moisture content of copy paper for use in the high speed printer/copiers. The District is investigating this option as a way to share staff, provide cross coverage and to increase efficiencies in the two areas.

Acknowledgements

We would like to thank all District employees for their cooperation, particularly the following people who assisted greatly in this risk assessment:

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Karl Ringer, Central Receiving & Central Store Supervisor



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