



## *Pearl River School District*

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October 21, 2022

Darin V. Iacobelli  
Nawrocki Smith LLP  
290 Broad Hollow Road, Suite 115E  
Melville, NY 11747

Dear Darin:

The Pearl River School District (the 'District') has received the report titled "Report on Internal Controls Pertaining to the District's Vendor Database dated July 2022."

The Pearl River School District hereby submits below a Corrective Action Plan for the Report on Internal Controls Pertaining to the District's Vendor Database which is required under Section 170.12 of the Regulations of the Commissioner of Education.

### **Recommendation #1:**

The Business Office should review the detail within the attached Exhibits 2 through 4 and confirm the reasons surrounding the identical vendor names, addresses, and Federal IDs. Additionally, the Business Office should confirm that there are no duplicate payments to vendors with identical vendor names, addresses, and Federal IDs.

The Business Office should determine whether or not the vendors with identical vendor names, addresses, and Federal IDs have business activity with the District and consider deactivating their status within the vendor database, if appropriate.

The Business Office should establish a practice of reviewing the vendor's federal ID numbers as reported on the Form W9 – Request for Taxpayer Identification Number and Certification for possible identical information in the database prior to entering the vendor's information into the District's vendor database.

Subsequent to our review, the Business Office took corrective action and is in the process of implementing this recommendation.

**District Response #1:** The District has reviewed the report Exhibits 2 through 4 and have identified vendors who can be combined and/or inactivated. The District would also like to clarify that the Wincap Vendor table includes vendors and customers. Customers may have no purchasing activity but are required to remain active for accounts receivable purposes.

As noted by the Auditors, the District Accounts Payable manager has begun the process of reviewing and inactivating vendors with no activity going back three years. This work is continuing and will be completed by March 31, 2023.

In addition, the District Purchasing manager will begin requesting new Form W-9s from each vendor that is sent a Purchase Order. Once the new Form W-9 is received, it will be scanned into Wincap and any missing FEINs will be input. Wincap controls do not allow entry of duplicate FEINs so this will enable us to ensure no duplicate vendors will be created. The corrective action work has already begun and will be completed by June 30, 2023.

**Recommendation #2:**

The Business Office should establish a practice of reviewing the activity of each vendor at the end of a fiscal year and update the District's vendor database by inactivating the vendors that have not been utilized within the three (3) prior consecutive fiscal years.

**District Response #2:** The District does have a practice of inactivating the vendors not being used. In January 2022, the District inactivated those vendors that have not been utilized in the last five consecutive fiscal years. Due to the two COVID years and the resulting purchasing patterns and challenges, we changed the criteria. As noted in District Response #1 above, the District Accounts Payable manager has begun the process of reviewing and inactivating vendors with no activity going back three years. This work is continuing and will be completed by March 31, 2023.

**Recommendation #3:**

The Business Office should review the permissions user account report and verify the appropriateness of user accounts and permissions on an individual employee basis. The Business Office should review the user permissions in WinCap on annual basis. Any permissions that create a segregation of duties issue should be revised. This recommendation will assist the Business Office in increasing its oversight and controls over its access to the District's accounting system.

**District Response #3:** The Assistant Superintendent for Business and the District external auditors perform a review of Wincap permissions annually. The audit identified two users (the Assistant Superintendent for Business and District Treasurer) had permissions that created a segregation of duties issue. These permissions were set up to work on an upgrade project whereby, due to limited staffing in the Business Office, the two employees helped with the manual input the project entailed. Those permissions have been deleted as of October 19, 2022. A segregation of duties issue no longer exists.

Thank you.

Regards,

Ann Marie Tromer  
Assistant Superintendent for Business



***Pearl River School District***

***Report on Internal Controls Pertaining to the District's Vendor Database***

***July 2022***



***Pearl River School District***

***Report on Internal Controls Pertaining to the District's Vendor Database***

***July 2022***

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**Scope of Engagement**

Pursuant to the request of the Pearl River School District and pursuant to the internal audit plan designed within the District's February 2022 risk assessment, we have reviewed the procedures and internal controls pertaining to the District's vendor database. The vendor database, by its nature, maintains information pertaining to vendors that conduct business with the District. It is imperative to monitor the vendor database to ensure that the data is accurate, useful, and readily accessible. Documented, knowledgeable oversight of the vendor database will increase the District's control over its resources.

The objectives of our analysis were to determine whether the internal controls pertaining to District's vendor database are adequate, duties are properly performed and controls over the vendor database maintenance are properly implemented, thus safeguarding the District's assets.

**Work Performed**

Our analysis consisted of the following:

1. Examined the vendor database information for the period of July 2018 through April 2022 provided by the Business Office, including:
  - Vendor Listing
  - Vendor Payment History Report
  - Check Register
  - User Permissions Report applicable to Vendor Maintenance
  - District Employee's Listing
2. Assessed the possible impact the COVID pandemic may have had on the District's internal controls, including control effectiveness, performance, and costs. Assessed possible improvements pertaining to the internal controls of the vendor database. Such recommendations are presented within each applicable report section.
3. Prepared analysis and report. An audit exit conference was held on October 19, 2022 with the Assistant Superintendent for Business. The results, findings, and recommendations contained in this report were discussed with those attending.

**Analysis of Vendor Database**

The District's current vendor database is organized into three (3) distinct categories. We have reviewed and tested each categorical procedure during the course of our audit. For ease of reference, the categories are listed below:

- ***Vendor Identity***
- ***Vendor Activity***
- ***Vendor Maintenance***

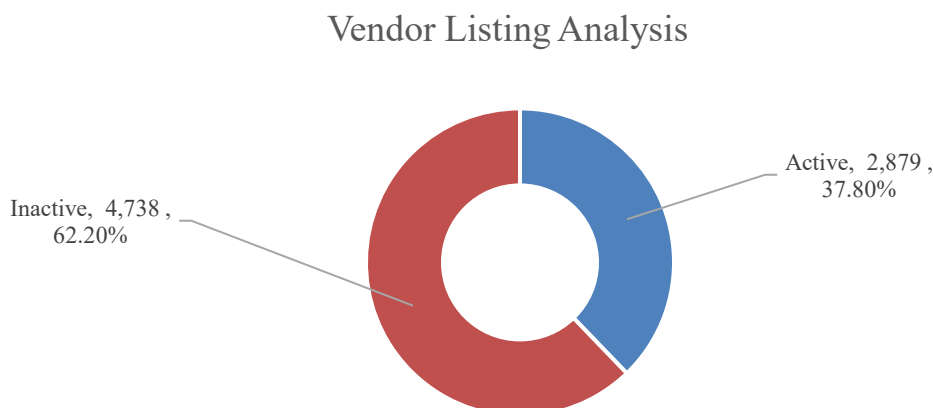
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**Vendor Identity (Exhibits 1 through 6)**

Based on our analysis of the vendor information maintained within the vendor database, we have made the following observations and recommendations.

**Analysis of Vendor Listing – Exhibit 1**

The District has 7,617 vendors within its vendor database; 2,879 (37.80%) active vendors and 4,738 (62.20%) inactive vendors. The following chart summarizes the number of vendors categorized by their activity status:



**Identical Active Vendor Information – Exhibits 2 through 4**

**Observation/Recommendation #1**

**Risk Rating: Moderate**

We noted instances of active vendors that had different names, addresses, and federal tax ids. The following table summarizes the number of instances with identical active vendor information:

	At Least 1 Vendor Had Business Activity within the Last 3 Years		Vendors Had No Business Activity Within the Last 3 Years		Total	
Category	Vendors	Identical Category Information	Vendors	Identical Category Information	Vendors	Identical Category Information
Vendor Names	18	36	5	11	23	47
Vendor Addresses	130	150	97	100	227	250
Federal Ids	24	49	4	8	28	57

- **The Business Office should review the details in the attached Exhibits 2 through 4 and confirm the reasons for the identical vendor names, addresses, and Federal IDs. Additionally, the Business Office should confirm that there are no duplicate payments to vendors with identical vendor names, addresses, and Federal IDs.**

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*The Business Office should determine whether or not the vendors with identical vendor names, addresses, and Federal IDs have business activity with the District and consider deactivating their status within the vendor database, if appropriate.*

*The Business Office should establish a practice of reviewing the vendor's federal ID numbers as reported on the Form W9 – Request for Taxpayer Identification Number and Certification for possible identical information in the database prior to entering the vendor's information into the District's vendor database.*

*Subsequent to our review, the Business Office took corrective action and is in the process of implementing this recommendation.*

**Federal Tax Identification Number – Exhibit 5**

We noted instances where federal tax identification numbers were not provided:

Category	Vendors Who Had Business Activity Within the Last 3 Years			Vendors Had No Business Activity Within the Last 3 Years		Total
<b>Tax ID Not Provided</b>	1,015	50.42%	998	49.58%	2,013	100.00%

➤ **See Recommendation #1.**

**Vendor Activity (Exhibits 6 through 11)**

Based on our analysis of the general fund vendor activity as reported within the vendor database, we have made the following observations and recommendations.

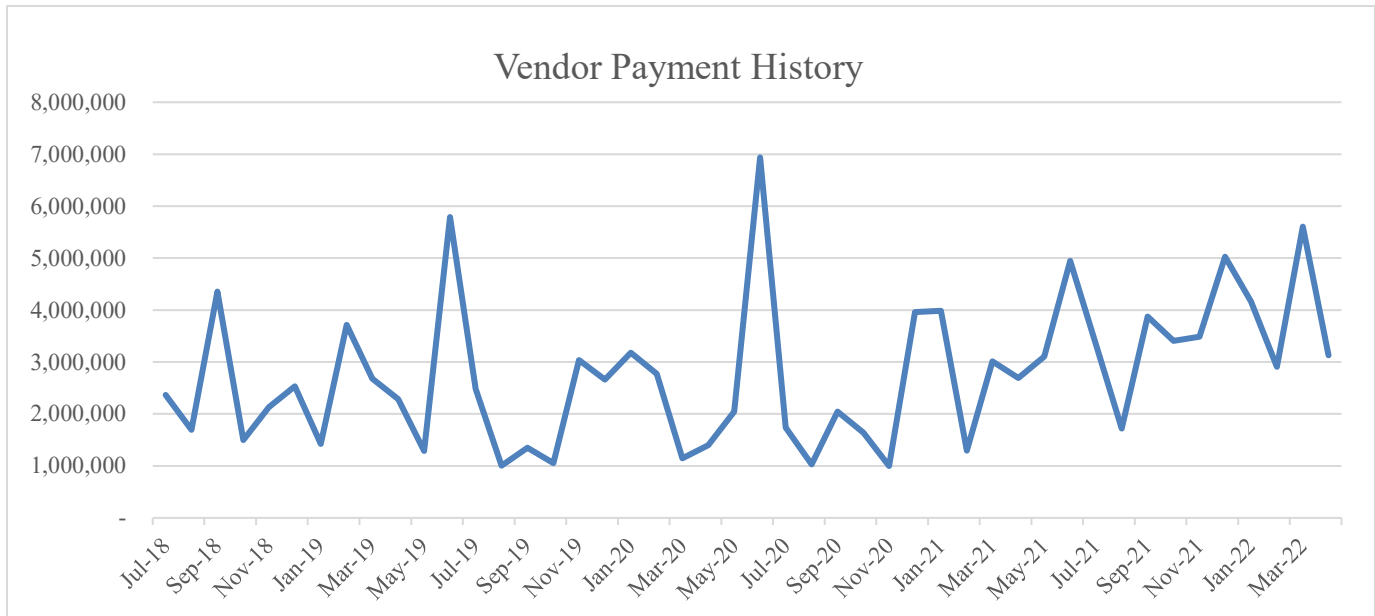
**Analysis of Vendor History Payment Report – Exhibits 6 & 7**

The District's payments to vendors fluctuated and ranged from \$30,450,872 in 2020/2021 to \$36,649,791 during the ten (10) month period of July 2021 through April 2022. The following table summarizes the top ten (10) vendors receiving payments during the period analyzed: (See Exhibit 6)

Vendor ID	Vendor	2018/ 2019	2019/ 2020	2020/ 2021	2021/2022	Total	
048300	NYS DEPARTMENT OF CIVIL SERVICE	9,245,455	9,057,192	9,079,345	8,201,066	35,583,057	27.81%
007500	ROCKLAND BOCES	9,432,615	9,706,182	9,204,753	6,227,808	34,571,359	27.02%
031810	INTERNAL REVENUE SERVICE	-	-	-	8,282,796	8,282,796	6.47%
011782	CHESTNUT RIDGE TRANSPORTATION	2,066,870	1,876,264	2,174,578	1,733,040	7,850,752	6.14%
000050	DEPOSITORY TRUST COMPANY	1,220,969	1,443,323	1,635,695	882,899	5,182,886	4.05%
000561	OMNI FINANCIAL GROUP, INC.	365,633	328,432	286,528	2,137,699	3,118,292	2.44%
051150	PEARL RIVER PUBLIC LIBRARY	2,660,929	-	-	-	2,660,929	2.08%
013000	CLARKSTOWN CENTRAL SCHOOL DISTRICT	595,071	557,695	368,072	614,645	2,135,483	1.67%
018006	DELTA DENTAL OF NEW YORK, INC.	555,234	510,738	532,433	474,340	2,072,745	1.62%
068950	VEL COACH INC	469,435	348,970	501,561	367,140	1,687,107	1.32%
<b>Subtotal</b>		<b>26,612,211</b>	<b>23,828,797</b>	<b>23,782,964</b>	<b>28,921,433</b>	<b>103,145,406</b>	<b>80.62%</b>
						-	
	Other 1,588 Vendors	5,147,861	5,243,642	6,667,908	7,728,357	24,787,768	19.38%
	<b>Total Vendor Payments</b>	<b>31,760,073</b>	<b>29,072,439</b>	<b>30,450,872</b>	<b>36,649,791</b>	<b>127,933,174</b>	<b>100.00%</b>
	<i>Change from Prior Year</i>	<i>N/A</i>	<i>(2,687,634)</i>	<i>1,378,434</i>	<i>N/A</i>		
	<i>% Change From Prior Year</i>	<i>N/A</i>	<i>-8.46%</i>	<i>4.74%</i>	<i>N/A</i>		

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Provided below is a graphical presentation of the District's vendor payments during the fiscal years 2018/2019 through 2020/2021 and the ten (10) month period of July 2021 through April 2022:



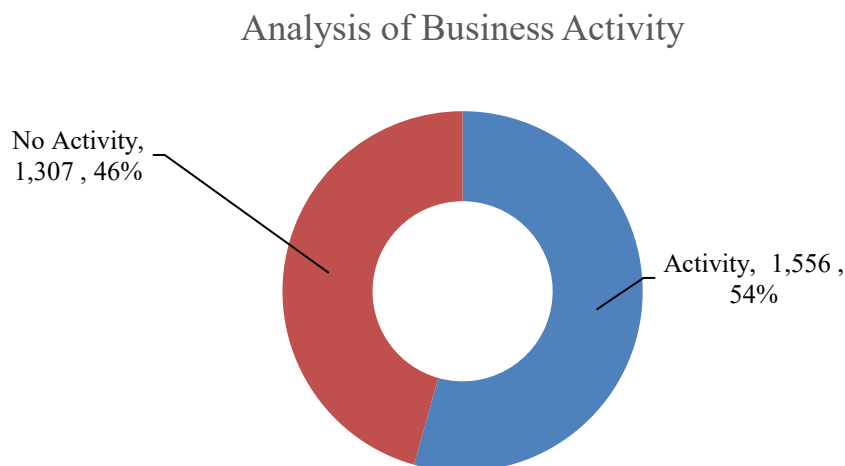
***No recommendations at this time.***

**Analysis of Vendors with No Business Activity with the District – Exhibit 8**

**Observation/Recommendation #2**

**Risk Rating: Moderate**

The District did not have business activity with 1,307, or 45.65%, vendors listed as active in the vendor database during the fiscal years 2018/2019 through 2020/2021 and the ten (10) month period of July 2021 through April 2022: (See Exhibit 8)





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- ***The Business Office should establish a practice of reviewing the activity of each vendor at the end of a fiscal year and update the District's vendor database by inactivating the vendors that have not been utilized within the three (3) prior consecutive fiscal years.***

***Subsequent to our review, the Business Office took corrective action and is in the process of implementing this recommendation.***

**Analysis of Similar Payments – Exhibit 9**

We analyzed the vendor payments to identify transactions with the following similar attributes: vendor name, invoice number, account code, and transaction amount. Based on our analysis, no exceptions were noted.

- ***No recommendations at this time.***

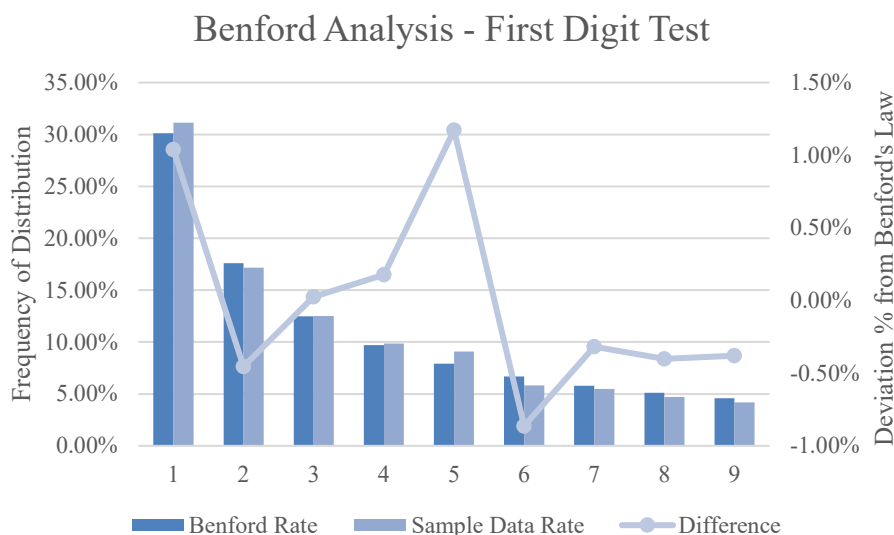
**Analysis of Gaps in Check Sequences – Exhibit 10**

A check sequence review was performed and a gap detection report was produced for checks not accounted for in the vendor payment report. Based on our analysis, no exceptions were noted.

- ***No recommendations at this time.***

**Analysis of Benford's Law Distribution – Exhibit 11**

We analyzed the vendor payments to identify suspicious patterns based on Benford's law<sup>1</sup>. We observed that the vendor payments followed Benford's law distribution, whereas the smaller leading digits (e.g., 1 and 2) appeared more frequently than the larger leading digits (e.g., 8 and 9). Based on our analysis, no significant outliers were noted.



<sup>1</sup> Newcomb–Benford's law, the law of anomalous numbers, or the first-digit law, is an observation about the frequency distribution of leading digits in many real-life sets of numerical data. The law states that in many naturally occurring collections of numbers, the leading significant digit is likely to be small. For example, in sets that obey the law, the number 1 appears as the leading significant digit about 30% of the time, while 9 appears as the leading significant digit less than 5% of the time. (Journal of Accountancy, Using Benford's Law to Detect Fraud, April 2018)

➤ *No recommendations at this time.*

### **Vendor Maintenance**

#### **Observation/Recommendation #3**

**Risk Rating: Moderate**

We analyzed the user permissions report applicable to the accounts payable module in WinCap to assess the appropriateness of user accounts and permissions based on the user's job functions. We noted that certain user accounts had permissions that appeared to be inconsistent with their respective job functions and responsibilities. Based on the limited information made available to date, we are unable to determine whether these permissions were utilized during the period analyzed. (See Exhibit 12)

➤ *The Business Office should review the permissions user account report and verify the appropriateness of user accounts and permissions on an individual employee basis. The Business Office should review the user permissions in WinCap on annual basis. Any permissions that create a segregation of duties issue should be revised. This recommendation will assist the Business Office in increasing its oversight and controls over its access to the District's accounting system.*

*Subsequent to our review, the Business Office took corrective action and is in the process of implementing this recommendation.*

### **Risk Rating and Opinion**

<b>Inherent Risk Rating</b>	High
<b>Control Risk</b>	Moderate (Pearl River School District)
<b>Audit Opinion</b>	Needs Improvement
<b>Audit Comment</b>	The District's vendor database process and controls need improvement. The recommendations noted above aim to improve the effectiveness of the existing procedures and related controls in the Business Office.

The following exhibits will be provided to the Business Office, however, due to the inclusion of sensitive information and user access information, we have not enclosed them in this report.

### **Exhibits**

<b><i>Exhibit 1</i></b>	Analysis of Vendor Listing
<b><i>Exhibit 2</i></b>	Analysis of Active Vendors with Identical Vendor Names
<b><i>Exhibit 3</i></b>	Analysis of Active Vendors with Identical Vendor Addresses
<b><i>Exhibit 4</i></b>	Analysis of Active Vendors with Identical Federal Tax IDs
<b><i>Exhibit 5</i></b>	Analysis of Active Vendors with no Federal Tax IDs
<b><i>Exhibit 6</i></b>	Analysis of Vendor Payment History

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<b><i>Exhibit 7</i></b>	Analysis of Vendor Payment Trends
<b><i>Exhibit 8</i></b>	Analysis of Vendors with No Business Activity
<b><i>Exhibit 9</i></b>	Analysis of Vendor Payment History Report Indicating Similar Payments
<b><i>Exhibit 10</i></b>	Analysis of Gaps In Check Sequence
<b><i>Exhibit 11</i></b>	Analysis of Benford's Law Distribution
<b><i>Exhibit 12</i></b>	Analysis of User Permissions

Please contact our Hauppauge, New York office @ 631-756-9500 if you should have any questions in this regard.