



Brighton Central School District Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2006 — December 5, 2007

2008M-124



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2008

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 Brighton Central School District, entitled Internal Controls Over Purchasing. 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 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 Brighton Central School District (District) is located in the Towns of Brighton and Pittsford, Monroe County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board 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 of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The purchasing agent is responsible for procuring all goods and services in compliance with General Municipal Law and District policy.

There are four schools in operation within the District, with approximately 3,500 students and 650 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$54 million for the general fund which were funded primarily with State aid, real property taxes, and grants. Total purchases were \$27 million for the 2006-07 fiscal year, representing 50 percent of the District's expenditures.

Objective

The objective of our audit was to determine if controls over purchasing were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Did District officials adhere to General Municipal Law regarding competitive bidding requirements?
- Did District officials solicit requests for proposals (RFPs) when procuring professional services, enter into written agreements, and ensure adherence to the terms of those agreements?

Scope and Methodology

We examined internal controls over purchasing of the District for the period July 1, 2006, to December 5, 2007.

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.

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 findings and indicated they will begin a process to implement our recommendations.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 forwarded to our office within 90 days. 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.

Competitive Bidding

Effective internal controls over purchasing include policies and procedures to provide an organization with reasonable assurance that it is using its resources effectively and complying with applicable laws and regulations. District officials are responsible for designing internal controls that help safeguard assets and ensure the prudent and economical use of moneys when procuring goods and services. The objective of a procurement process is to obtain the best quality of goods and services at the lowest possible price in compliance with District policy and legal requirements. This helps ensure that taxpayer dollars are expended in the most effective manner.

General Municipal Law and the District's purchasing policy require the District to solicit competitive bids for purchases in excess of \$10,000 and public works contracts in excess of \$20,000.

The District followed the provisions of General Municipal Law with regard to solicitation of competitive bids for purchase and public works contracts. We reviewed 23 significant contracts subject to competitive bidding requirements, totaling \$8.5 million, in effect during our audit period. District officials followed competitive bidding requirements in awarding the purchase contracts and public works contracts to the lowest responsible bidders responding to public advertisements for bids. Several examples follow:

| Description | Bid Award Date | Total Paid |
|--|---------------------------|-------------|
| Public Works Contract — School Construction — Vendor A | 4-17-07 (District Bid) | \$1,082,752 |
| Public Works Contract — School Construction — Vendor B | 3-15-05 (District Bid) | \$798,742 |
| Purchase Contract — Food — Vendor C | 7-10-07 (Cooperative Bid) | \$127,588 |
| Purchase Contract — Paper Products — Vendor D | 9-28-06 (Cooperative Bid) | \$125,855 |
| Purchase Contract — Janitorial Supplies — Vendor E | 6-13-06 (Cooperative Bid) | \$57,256 |

We commend the District for establishing policies and procedures requiring compliance with competitive bidding laws and then enforcing those policies and procedures.

Professional Services

Contracts for professional services do not have to be competitively bid. However, the General Municipal Law requires that the District adopt written policies and procedures for the procurement of goods and services that are not subject to the competitive bidding requirements. These policies and procedures should describe procurement methods, explain when to use each method, and require adequate documentation of procurement decisions. Additionally, it is essential that the District have a written agreement with professional service providers with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. Written agreements should include the timeframe and description of services to be provided, and may be used to verify that the fees charged are in accordance with the Board's intent. Written agreements help to protect the District in the event that contractors default on their obligations or make excessive claims.

The Board has not adopted a policy that addresses the procurement of professional services. The District's current purchasing policy makes no reference to procurement of professional services. We tested two of the District's most significant professional service providers and determined that the District has not performed an RFP for legal services worth \$123,000. Although District officials indicated they had performed an RFP for architectural services in the early 1990s, they have not solicited an RFP for such services since that time. During the period of our audit, the District paid a total of \$281,000 for architectural services. In the absence of comprehensive policies and procedures for procuring professional services, District officials cannot be sure that they obtained these services in the most economical manner and in the best interest of District taxpayers.

We also determined that the District did not obtain a written agreement with its legal service provider. By not having Board-approved written agreements or valid contracts in place, District officials cannot be certain that the District is paying for the agreed-upon services and that the services are delivered in accordance with District requirements.

Recommendations

1. The Board should amend the District's procurement policy to include provisions for the procurement of professional services. In addition, District officials should award contracts to professional service providers only after soliciting competitive proposals.

2. District officials should ensure that the District has written and signed agreements in place with professional service providers that clearly define the amount of compensation, the types of services, and the duration of the work to be performed.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

September 9, 2008

Rochester Regional Office

Office of the State Comptroller
The Powers Building
16 W Main St Suite 522
Rochester, NY 14614-1608

Dear [REDACTED]

On Wednesday September 3rd, Brighton Central School District representatives met with [REDACTED] and [REDACTED] to review the draft findings of the OSC Audit Report.

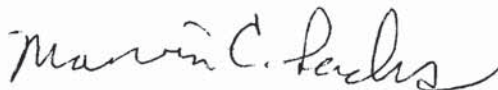
The District appreciates the comment regarding competitive bidding. Your office commended this district for compliance with competitive bidding laws and enforcing its policies.

Regarding professional services, your office made two recommendations. The first suggested that the Board amend the District's procurement policy to include professional services and solicit competitive proposals. The other is to ensure that the District has signed agreements with professional services providers.

We recognize that the District is not in violation of any laws or regulations regarding the procurement of professional services. However, these recommendations are meant to strengthen our business procedures. The Brighton Central School District accepts these recommendations and will begin a process to implement both.

The School District would like to extend our appreciation to [REDACTED] and [REDACTED] for their comprehensive review of our financial operations and their professionalism in conducting this important audit.

Sincerely,



Dr. Marv Sachs
School Board President

cc: Dr. Manaseri
Mr. Valenti
Ms. Lee
Board of Education

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Julene Gilbert
Mark P. Kokanovich
Linda Morrison
Dr. Morton Stein

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing for further audit testing. Our testing included the following steps:

- We reviewed current District policies and procedures relevant to purchasing.
- We interviewed key personnel to determine the process for requisitioning goods or services, approvals required, and the procedure for locating a vendor.
- We interviewed key personnel to determine the process for authorization of payment to the vendor.
- We examined RFP and bidding documentation to determine whether the procurement of professional services, public work and purchase contracts were made in accordance with Board policy and legal requirements.
- We reviewed two payments made to the District's architectural service provider during October and November 2006 (totaling \$122,087) to determine if such payments were made in accordance with the signed contract with the District.

We conducted this performance audit in accordance with generally accepted government auditing standards (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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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