



Hicksville Union Free School District Internal Controls Over Procurement

Report of Examination

Period Covered:

July 1, 2006 — April 30, 2008

2008M-198



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Hicksville Union Free School District, entitled Internal Controls Over Procurement. 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 Hicksville Union Free School District (District) is located in the Town of Oyster Bay, Nassau 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.

There are nine schools in operation within the District, with approximately 5,300 students and 1,200 employees. For the period ending June 30, 2007, the District spent approximately \$96.7 million. The District's budgeted expenditures for the 2007-08 fiscal year are approximately \$103.9 million, which are funded primarily with real property taxes and State and federal aid.

Objective

The objective of our audit was to examine the District's controls over procurement for the period July 1, 2006 to April 30, 2008. Our audit addressed the following related question:

- Are internal controls over procurement appropriately designed and effectively operating to adequately safeguard district assets?

Scope and Methodology

We examined the District's controls over the procurement of goods and services for the period July 1, 2006 to April 30, 2008.

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 generally 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 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.

Procurement

An effective procurement process helps the District to obtain services, materials, supplies and equipment of the right quality, in the right quantity, from the right source, at the right price, and in compliance with all applicable Board and legal requirements. This process helps the District ensure that it expends taxpayer dollars in the most efficient manner.

We found that the District's policies relating to the procurement of professional services were not adequately designed or effectively operating. As a result, District personnel acquired professional services totaling \$2,720,134 during our audit period without using a competitive process and paid one firm a total of \$217,311 without the benefit of a written contract. In addition, District employees have not followed the Board's adopted policy governing the use of its gasoline cards. Furthermore, the District does not have written policies and procedures to govern the use of store-specific purchase cards, which were used during our audit period to purchase \$86,490 of supplies. As a result, there is an increased risk that credit and purchase cards will be used to make purchases that are not for District purposes.

Professional Service Providers

Contracts for professional services do not have to be competitively bid. However, General Municipal Law (GML) requires school districts to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. Written procurement policies and procedures help to ensure the prudent and economical use of public moneys in the best interest of the taxpayer. Although not required by law, prudent business practices provide that professional services be awarded after soliciting competition. One way to accomplish this is through the request for proposal (RFP) process which is meant to ensure that the District receives the desired service on the most favorable terms and conditions, or at the best value. Furthermore, it is important for District officials and professional service providers to enter into written agreements prior to the performance of any services. An effective agreement indicates the contract period, the service(s) to be provided, and the basis for compensation for those services. Generally, all lawful contracts for pupil and other professional services must be presented and approved in advance by the Board.

The District's purchasing policy did not require the District to solicit competition before awarding professional service contracts. Rather, the policy states that the Board may in its discretion solicit RFPs for some or all professional services. The policy also enumerates a number

of conditions¹ which, if met, make it unnecessary for the District to solicit proposals. Although the District's purchasing policy leaves the decision of whether to solicit RFPs to the Board's discretion, District personnel generally did not solicit RFPs when seeking to obtain professional services.

The District paid approximately 44 professional service providers over \$5 million from July 2006 through April 2008. We tested payments made to eight professional service providers² who were paid a total of \$2,805,934 during this period. The District did not solicit competitive proposals prior to selecting seven of the providers, who were paid a total of \$2,720,134. While the District is not required to issue RFPs for professional services, doing so would help ensure the District was obtaining specified services at a reasonable price.

In addition, the District paid \$217,311 to one of the seven professional service providers, an employment agency providing temporary employees to the District, without a written agreement. District officials stated that temporary employees are only used to fill clerical positions vacated by employees on leave. The District did not have a written agreement in place with this agency and there was no Board resolution authorizing the use of this agency.

By not seeking competitive proposals, the District can not be assured it is receiving desired professional services at the lowest possible price. In addition, without written agreements or Board resolutions approving services to be provided and fees to be paid, it is more difficult for the District to determine if the fees charged were correct and for properly authorized services.

Credit/Purchase Cards

An effective system of internal controls requires a sound credit card policy that establishes the parameters for using a credit or purchase card and procedures for monitoring card usage. It is important that the policy identifies the individuals who are authorized to use the credit or purchase card, provide dollar limits for purchases, describe the types of purchases allowed and the documentation required to support the purchases, establish control procedures over the custody of the credit or purchase card and the monitoring of its use, and address

¹ District Policy 6700A: Professional Service Policy Amendment states that, "the award of contracts for professional services without the solicitation of alternate proposals or quotations would be in the best interest of the [District] when the following criteria are met: continuity of service; confidential nature of service; fiduciary relationship is integral to the service; cost effectiveness of the service; confidence in the expertise of the service provider; breadth of knowledge of the [District], its operation and needs; ability to provide service in an expedient manner."

² Professional service providers included vendors who provided tutoring, architectural services, computer consulting services, internal audit services, legal services, temporary employment services, and two vendors providing therapy services.

the methods to recover moneys from improper use of the credit or purchase card. Although the Board has addressed the use of gasoline credit cards in its purchasing policy, it has not developed a policy for the use of its store-specific credit or purchase cards.

Gasoline Cards — The District’s purchasing policy requires that each District vehicle be assigned a unique gasoline card and personal information number (PIN). The policy also requires each driver to maintain a log book for his or her vehicle and to complete a log book entry recording the odometer reading and quantity of gasoline pumped each time a purchase is made. The driver must also obtain a printed receipt of the purchase. The accounts payable office is responsible for matching each transaction on the monthly invoice to an original receipt. The policy mandates that the accounts payable office may pay only those transactions for which there is an original receipt.

The District issued 32 gasoline credit cards to employees for use with specific vehicles. Although the District had a list of credit cards identifying the vehicles to which they were assigned, the list did not contain the identification numbers that the District assigned to these vehicles or the names of the employees assigned to each card and vehicle. During our audit period, the District’s gasoline purchases totaled \$92,139. We reviewed 81 gasoline purchases totaling \$4,864 and found the following deficiencies:

- The District-assigned vehicle identification numbers that were referenced on 35 purchases did not match the identification numbers on the corresponding fuel logs.
- Gasoline purchases totaling \$512 were paid without an original receipt or fuel log.
- Six credit card numbers that were listed on the invoices were not on the list of the 32 credit cards authorized by the District. The District made purchases totaling \$1,816 on these six cards.
- The odometer readings recorded on the fuel log for six purchases did not agree with the odometer readings on the invoice and receipt.
- Four purchases were made by two employees who were not assigned credit cards. These employees used credit cards that were assigned to other employees.
- Two of the credit cards were used to fuel a District vehicle that was not assigned to the cards.

The failure of District officials and employees to adhere to the Board's adopted policy regarding the use of gasoline credit cards could lead to the District incurring unauthorized and inappropriate gas charges.

Store-Specific Purchase Cards — The District has three store-specific purchase cards that have been issued for use on its account with a home center. The Board has not adopted written policies or procedures governing the use of these cards, and the District does require that these purchase cards be kept in the purchasing office when not in use, that authorized users sign for the purchase card before use, and that users initial and date the log when returning the purchase card, as well as present a receipt for all items purchased.

During our audit period, the Facilities and Grounds Department purchased supplies totaling \$86,490 from a home center using the three purchase cards. We reviewed 24 purchases totaling \$8,059 and found that five purchases totaling \$4,398 were made by an individual who was not authorized to use the purchase card. In addition, these purchases were not supported by receipts. Moreover, receipts for four of the 24 purchases totaling \$480 were not signed by the individual using the purchase card. When receipts are not signed, the District cannot be certain as to who used the purchase card to make the purchase.

The District's internal control procedures relating to purchases made using the store-specific purchase cards were not operating effectively, which could result in inappropriate or unauthorized purchases. In addition, the lack of written policies and procedures governing the use of store-specific credit cards could result in the claims auditor approving, and the District paying, credit card claims for unauthorized purchases.

Recommendations

1. The Board should revise the District's procurement policy to require that the District award contracts for professional services only after soliciting competition.
2. The Board should enter into written agreements with all individuals and firms that provide professional services to the District and ensure that these agreements clearly stipulate the services to be provided and the basis for compensation. The Board should approve these written agreements by resolution.
3. District officials should update the list of District vehicles and ensure that this list includes the identification numbers, driver, and credit card assigned to each vehicle.

4. District officials should enforce the Board-approved policy governing the use of gasoline credit cards.
5. The Board should develop and implement written policies governing the use and control of store-specific purchase cards.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Maureen K. Bright
Superintendent of Schools

Helen Murray
District Clerk

November 14, 2008

[REDACTED]
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear [REDACTED]

The Board of Education and Administration of the Hicksville Union Free School District have received and carefully reviewed the draft Report of Examination based upon the findings of the auditors of the Office of State Comptroller for the period July 1, 2006-April 30, 2008. On behalf of the Board and Administration I would like to express my appreciation to your office for the professionalism and courtesy demonstrated by the audit team. The manner in which they conducted their responsibilities and interacted with district staff is to be commended.

As is the case with our external and internal audits, we sincerely appreciate the opportunity to have our district operations thoroughly analyzed. We believe that the audit process provides the district with the opportunity to strengthen our internal controls, improve district operations and advance Board governance. Thank you for providing this valuable service to our community.

The district accepts the recommendations incorporated in the report and is committed to taking the necessary steps to continue to perfect district internal controls and operations. We were pleased that given the extensive nature of the audit, analysis of a twenty-two month period, the recommendations were confined to only two areas. Consistent with our fine external audits, we believe that the limited findings and oral comments made by your auditors are a testament to the honesty and integrity of our district employees. We were pleased to note that no violations of law or regulation were found by the auditors.

We would like to provide clarification regarding recommendations for the two areas addressed in the report: Professional Services and the Use of Gasoline and Purchasing/Buyer Identification Cards.

Professional Services

The district has in place a long standing and comprehensive Purchasing Policy. The policy is reviewed annually by the Board of Education, in conjunction with monthly Board of Education policy meetings. Revisions, based upon the recommendations of district auditors and attorneys, are made annually to the policy, which is subsequently adopted by the Board. The policy is adhered to by administration in the procurement of goods and services for the district. The district utilizes Requests for Proposals (RFP) in procuring professional services; however, in some instances such as, legal, technical, and architectural services, as well as particular services for students with special needs, the district has exercised its legal

Board of Education

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Susan Powell	Charles Coutieri	Joanne Owens
		Steven Culhane

discretion in accordance with General Municipal Law and district policy. The district intends to review the purchasing policy in light of the recommendation included in the Comptroller's Report.

The "no written contract" issue has been corrected. We do wish to note that the service provider submitted clearly defined fee schedules. All fees charged were authorized by the Assistant Superintendent for Personnel and subsequent invoices were reviewed by the Assistant Superintendent for Personnel and the business office personnel in accordance with district procedures.

Use of Gasoline and Purchasing/Buyer Identification Cards

While the district acknowledges and accepts the recommendations regarding the use of gasoline and purchasing/buyer identification cards, we do believe that certain clarifications regarding these cards and their use are necessary. It has been a conscious decision of the district not to obtain or utilize credit cards. There is, however, one exception based upon necessity.

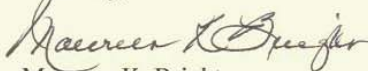
Due to the fact that the district does not, nor do we chose to, have on-site fueling capabilities, it has been necessary to permit the use of credit cards for gasoline purchasing for district vehicles utilized by the Building and Grounds Department staff. All vehicles, i.e. trucks, vans and buses, are for work purposes and are housed on the district premises. The district implemented additional measures to ensure and monitor the effective use of the district gasoline credit cards, in accordance with district policy, upon identification by the Comptroller's audit team of the need to do so. The district had previously implemented an ambitious and detailed policy, which we were pleased that the auditors orally commended. A change in staffing has facilitated the effective implementation of monitoring procedures for use of the cards. We are pleased to note that there was no finding of improper use or financial loss regarding the cards.

The Purchasing Card is a Buyer Identification card that is linked to a specific purchase order for only one store. All cards are maintained in the purchasing office and released by the Purchasing Agent. In accordance with the district purchasing policy, the funds are encumbered and all purchases are authorized. The purchasing/buyer identification card assists the district in the purchase of items for emergency needs for building maintenance. Based upon the auditors' recommendations the existing district procedures for the use of the cards have been committed to writing and compliance monitored by staff.

While we recognize that the intent of the report is to identify areas for improvement only, in light of the focus on purchasing, we do wish to note that each claims transaction is part of the internal claims audit process, a process which the district has had in place for the past seventeen years. All claims are reviewed by the internal claims auditor prior to payment. All warrants are publicly reviewed by the Board of Education at their monthly Finance Committee meeting where public participation is invited.

In conclusion, the Board of Education and Administration would like to thank the New York State Comptroller's Office for their diligence in safeguarding the taxpayers' investment in our schools. We believe that the report verifies the integrity, competence and commitment put forth by the Board of Education, Administration and staff. The district, as requested, will develop and submit a corrective action plan to the Comptroller's Office within 90 days upon receipt of the final report.

Sincerely,



Maureen K. Bright
Superintendent of Schools

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 the procurement of goods and services for further audit testing.

Our examination also included the following:

- We reviewed District business policies in order to determine if they adequately addressed the procurement of goods and services.
- We verified that purchases were made, goods were received, and claims were processed as authorized.
- We reviewed payments to professional service providers in order to determine if RFPs were solicited by the District, and that payments were made according to contractual terms.

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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