



Lyncourt Union Free School District

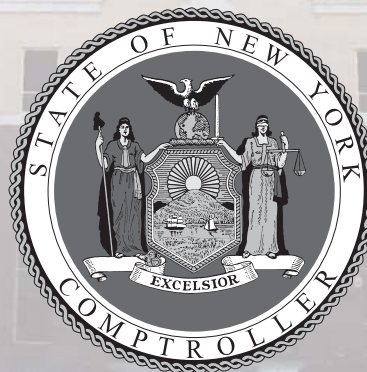
Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2006 — January 31, 2008

2008M-114



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Lyncourt Union Free 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 Lyncourt Union Free School District (District) is located in the Town of Salina in Onondaga County. The District is governed by the Board of Education (Board) which comprises five 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 is one school in operation within the District, with approximately 350 students and 75 employees. The District provides education for students in Kindergarten through Grade 8. The District's budgeted expenditures for the 2006-07 fiscal year were \$6.5 million, which were funded primarily with State aid, real property taxes, and grants.

The Board has appointed the District's Business Administrator to serve as the purchasing agent. The Business Office is staffed by the Business Administrator, Treasurer, and two District aides who provide support to the Business Office.

Objective

The objective of our audit was to review the District's controls over purchasing. Our audit addressed the following related question:

- Has the District established policies and procedures to ensure that goods and services are purchased in the most prudent and economical way?

Scope and Methodology

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. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas that we reviewed. We did determine that risk existed in the purchasing area and, therefore, we examined the District's internal controls over purchasing for the period July 1, 2006 to January 31, 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, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Purchasing

An effective procurement process helps the District to obtain supplies, equipment and services of the right quality, in the right quantity, from the right source, at the right price in compliance with all applicable Board and legal requirements. District officials are responsible for implementing internal controls to ensure an effective procurement process. A good system of internal controls consists of policies, practices and procedures intended to provide reasonable assurance that the District is using its resources effectively, and that it is complying with applicable laws and regulations.

General Municipal Law (GML) requires school districts to advertise for bids for purchase contracts in excess of \$10,000 and public work contracts in excess of \$20,000. Advertising for bids encourages competition among vendors and provides taxpayers with reasonable assurance that goods and services are procured in a prudent and economical manner. School districts may also use certain contracts awarded through the New York State Office of General Services (OGS) or a county, or may participate in cooperative bidding with other governmental entities such as a Board of Cooperative Educational Services (BOCES).

GML also requires that school districts follow written policies and procedures adopted by the Board when procuring goods and services that are not subject to competitive bidding requirements. It is important that these policies and procedures contain provisions requiring District personnel to purchase these goods and services based on a written request for proposals (RFP), written quotations, or verbal quotations, and should describe each method of procurement and the procedures for determining which method will be used. For example, the procurement policy could require District personnel to solicit a specified number of proposals or obtain a specified number of verbal or written quotes for purchases that fall between certain dollar thresholds. The procurement policy must also describe the type of documentation that District personnel must provide and maintain for each of the actions taken.

Although the District has established internal controls for their purchasing practices to protect against fraud, abuse and professional misconduct, we found that these controls did not always operate effectively, and the policy was inadequate. District staff did not always comply with competitive bidding requirements, and the District's procurement policy provided little guidance on what

actions personnel should take to seek competition for procurements that fall below the dollar thresholds for competitive bidding.

The Board adopted a procurement policy which states that the District must develop procedures to procure supplies, equipment and services that are not subject to competitive bidding requirements. The Board's policy identified the key principles that the District should address in its procedures, but District officials have not developed written procedures or regulations to supplement the Board's policy. As a result, District personnel have not received detailed guidance on how to procure supplies, equipment and services in the most prudent and economical way.

We reviewed eight contracts totaling \$757,131 that were subject to competitive bidding requirements. We found that the District complied with the competitive bidding requirements for seven of these contracts. However, the District did not request bids for one of these contracts. As a result, the District spent \$27,120 without ensuring that it was getting the best price for these goods.

We also reviewed 10 purchase and public work contracts totaling \$82,764 that were not subject to competitive bidding requirements to determine if District officials obtained quotes, and we found that one purchase totaling \$8,193 was correctly procured through cooperative bidding with BOCES. However, we found that the other nine contracts totaling \$74,571 did not contain documentation to provide proof that the District obtained competition for the goods and services. For example, the District entered into the following purchase and public work contracts without the benefit of competition:

- \$16,160 to install a kitchen hood exhaust
- \$7,040 to purchase and install flooring
- \$6,285 to purchase and install a compressor; in addition, the District paid this vendor a quarterly maintenance fee of \$1,425 without obtaining competition.
- \$12,417 in total during our audit period for monthly trash service.

District officials stated that they obtained quotes for two of the nine contracts, but they did not include documentation of these quotes in the contract files. District officials stated that they did not seek quotes for the other seven contracts because they are aware of local vendors and pricing for routinely purchased goods, and that they believe they receive fair prices for these goods.

Because the Board did not provide clear policy guidance for District personnel to follow when procuring goods and services that don't require competitive bids, and because the District officials did not seek competition prior to procuring goods and services, the District may have paid more than necessary for these goods and services.

Recommendations

1. The Board should amend its procurement policy or develop additional written procedures that provide detailed guidance to District personnel for purchases that do not require competitive bidding. The policy should indicate when RFPs/quotes are required, the number they must obtain, and the detailed procedures for documenting compliance with the Board's procurement policy.
2. District officials should ensure that all employees involved in the procurement process follow the District's procurement policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Lyncourt Union Free School District

2707-09 Court Street, Syracuse, NY 13208
(315) 455-7571 Fax: (315) 455-7573



"Great Expectations for Achievement, Respect, and Caring"

Website: "http://Lyncourt.cnyric.org"

Michael R. Sandore
Superintendent

Michael A. Schiedo
Principal

James C. Stevens
Business Administrator

July 9, 2008 - Wednesday

Office of the State Comptroller
State Office Building
Room 409
333 East Washington Street
Syracuse, New York 13202-1428

Attention: [REDACTED]

AND

Office of the State Comptroller
Division of Local Government and School Accountability
PSU-CAP Submission
110 State Street
12th Floor
Albany, New York 12236

AND

New York State Education Department
Office of Audit Services
Room 524 EB
89 Washington Avenue
Albany, New York 12234

Dear Ladies and Gentlemen:

On Monday, June 30, 2008, at 9:00 A.M., Michael Sandore-Superintendent, Michael Schiedo-Existing Principal and Future Superintendent and James Stevens-School Business Administrator, met with [REDACTED] and [REDACTED], [REDACTED] of the Office of the State Comptroller. The purpose of this meeting, which was called and requested by the local office of the OSC, was to conduct the exit discussion concerning the preliminary draft findings of their recent examination of the Lyncourt Union Free School District

A copy of the preliminary draft findings dated June 30, 2008 is attached to this corrective action plan.

The draft findings and the meeting of June 30, 2008 were discussed at the school district re-organizational meeting on Tuesday, July 8, 2008. The Board of Education unanimously accepted the findings of the OSC.

AUDIT FINDINGS:

The Lyncourt Union Free School District agrees with the Audit Findings of the Office of The State Comptroller. Our Corrective Action Plan is based upon the Audit Findings. (see below)

CORRECTIVE ACTION PLAN:

1.) Purchasing:

The school district will comply with Purchasing Policy # 5410. (copy attached) The school district will also develop written procedures (copy attached) to supplement the policy. These procedures will provide detailed guidance on the manner in how district officials are to procure supplies, equipment and services in the most prudent and economical way. As discussed at today's meeting, these procedures can produce savings for goods and services which fall below the thresholds prescribed by General Municipal Law.

GML will be complied with regarding purchase contracts exceeding \$10,000.00 and public works contracts exceeding \$20,000.00.

The recommendations by OSC will be implemented immediately.

This is an ongoing process, which will be refined and streamlined throughout the course of each school year and from year to year, to best serve the interests of the school district.

Please let us know if we may be of further assistance. Thank you!

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence Salamino".

Lawrence Salamino

President of the Board of Education

A handwritten signature in black ink, appearing to read "Michael Sandore".

Michael Sandore

Superintendent

A handwritten signature in black ink, appearing to read "James C. Stevens".

James C. Stevens

School Business Administrator
District Clerk

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. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. 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 examination included the following:

- We interviewed appropriate District officials and employees regarding the District's procurement policies and procedures. These discussions allowed us to analyze the District's internal control structure governing the procurement of goods and services.
- We obtained copies of District policies and procedures and evaluated the adequacy of these policies.
- We examined a sample of eight contracts totaling \$757,131 and other supporting documentation to determine if the District complied with competitive bidding laws.
- We examined a sample of ten contracts totaling \$82,764 and other supporting documentation to determine if the District sought competition for purchases below the bidding thresholds.

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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Steven J. Hancox, Deputy Comptroller
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