



Richfield Springs Central School District Internal Controls Over Purchasing

Report of Examination

Period Covered:

July 1, 2006 — May 27, 2008

2008M-195



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 Richfield Springs 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 Richfield Springs Central School District (District) is located in the Towns of Columbia and Warren in Herkimer County and the Towns of Exeter, Otsego, Richfield, and Springfield in Otsego 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 600 students and 150 employees. The District's budgeted appropriations for the 2007-08 fiscal year were \$10.8 million, which were funded primarily with State aid, real property taxes, and grants.

The Board adopted a procurement policy which provides guidance for purchasing goods and services. The Superintendent serves as the purchasing agent and is responsible for implementing the District's procurement policy and ensuring that all District purchases are made in accordance with the policy and pertinent laws.

Objective

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

- Did the purchasing agent ensure that goods and services were purchased in accordance with District procurement policy provisions and competitive bidding requirements?

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, payroll and personal services, and information technology. 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 did determine that risk existed in the purchasing area and, therefore, we examined internal controls over purchasing for the period July 1, 2006 to May 27, 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 is 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.

Purchasing

A sound internal control structure over purchasing is necessary to safeguard District assets and to ensure that the procurement of goods and services is prudent and economical. An effective system of controls and good management practices require the use of competition such as bids, requests for proposals (RFPs), and quotes to procure goods and services. The use of competition provides taxpayers with the greatest assurance that goods and services of suitable quality are acquired at the lowest possible price, and that procurement is not influenced by favoritism, extravagance, or fraud. The Board adopted a procurement policy which provides guidance for purchasing goods and services. The purchasing agent is responsible for implementing the District's procurement policy and ensuring that all District purchases are made in accordance with the policy and pertinent laws.

We found that the purchasing agent¹ did not always ensure that goods and services were purchased in accordance with the District's procurement policy provisions and pertinent laws. We reviewed 57 purchases totaling approximately \$1.6 million and found that District officials did not seek competition for 31 of these purchases totaling approximately \$607,000. Without the proper adherence to laws and established policies and procedures, District officials do not have assurance that they are purchasing items of the best quality at the lowest possible cost.

Competitive Bidding

General Municipal Law (GML) requires that bids be solicited when the cost of an item or commodity group exceeds established dollar limits. All purchase contracts in excess of \$10,000 and public works contracts in excess of \$20,000 must be awarded, after advertising for sealed bids, to the lowest responsible bidder. In lieu of advertising for bids, the District may, in certain instances, participate in contracts awarded by the New York State Office of General Services or other governmental entities. In addition to the requirements of GML, the District adopted a procurement policy that also requires the use of competitive bidding.

We reviewed 13 purchases totaling approximately \$1 million that required competitive bidding. We found that District officials did not competitively bid or participate in a contract awarded by another

¹ As indicated in the introduction, the Superintendent is currently acting as purchasing agent, as well as performing his duties as Superintendent. We have directed this finding to him as purchasing agent. In the future, should the District hire or appoint someone else to the position of purchasing agent, that individual would need to follow the recommendations made to improve the system.

governmental entity for four of these purchases totaling \$110,388. These purchases were for produce, cleaning supplies, security equipment, and a walk-in cooler.

The purchasing agent told us he did not verify that purchases were competitively bid because he believed that District personnel were experienced in the purchasing process and would ensure that goods and services were obtained at the lowest cost. Awarding purchase contracts in excess of \$10,000 and public works contracts in excess of \$20,000 without the benefit of a public bid process violates GML and the District's own policy. In addition, the failure to comply with competitive bidding requirements increases the risk that goods and services will not be purchased at the lowest price possible.

Request for Quotations

The District's procurement policy requires that at least two quotes² are obtained for purchases of items or groups of items whose totals exceed \$5,000, but are less than the bidding thresholds prescribed by GML. The District's procurement policy includes a "request for quotation" form which must be used to document the quotes received. In addition, the procurement policy requires that written quotes be obtained for insurance coverage.

We reviewed 38 purchases totaling \$417,001 that required quotes and found that District officials did not comply with the procurement policy as follows:

- District officials did not document that quotes were obtained for 14 purchases totaling \$131,444. These payments were for transportation equipment, cleaning supplies and equipment, athletic supplies and equipment, musical equipment, art supplies, and food and beverages for the cafeteria. District officials stated that they would often obtain either verbal or written quotes, but that they did not know they needed to retain the documentation as required by the District's procurement policy. More specifically, seven of nine department heads directly involved in the purchasing process told us they had not been provided a copy of the District's procurement policy and did not know they were required to retain documentation of the quotes they had obtained.

² The District's procurement policy states "at least two informal quotations either by a) 'request for quotation' form mailed to bidders, or b) by telephone with written documentation." The policy does not specify verbal or written.

- District officials did not obtain quotes for five purchases totaling \$34,236 because they claimed that the vendors were sole source.³ However, we found no evidence documenting that the vendors were sole source vendors as required by the District’s procurement policy. These purchases were for automotive parts, athletic equipment, and cafeteria food and beverages.
- District officials did not obtain written quotes for any of the District’s insurance coverage. The District purchased three insurance policies during the audit period for a total cost of \$139,422. The Superintendent told us that the District did not obtain quotes for insurance because District officials feel that they are getting the best price and coverage available.

Without the proper adherence to laws and established policies and procedures, District officials do not have assurance that they are procuring items at the lowest possible cost.

Professional Services

The District’s procurement policy requires that the Superintendent recommend contracts for professional services to the Board. The policy also states that “It is at the discretion of the Superintendent to use a Request For Proposal (RFP) process or a verbal quotation process as a basis for his recommendation.”

The Superintendent did not solicit RFPs or require any other form of competition when procuring certain professional services. We reviewed six purchases made to professional service providers totaling \$212,876. In five of these cases, purchases totaling \$191,876 were made without the use of RFP’s or another form of competition. These payments were for management of a District capital project, financial advisors, telephone services, and employee development services.

The Treasurer told us that District officials did not solicit RFPs or other forms of competition for the financial advisors and telephone services because she thought they were sole source vendors. However, District officials did not provide us with any evidence to indicate that these vendors were in fact sole source. Further, the Superintendent told us that they did not solicit RFPs or other forms of competition for the management of the capital project or the employee development services because he had prior experience with the vendors and felt that they were reputable and provided quality services.

³ Sole source is when there is only one possible supplier or source from which to purchase goods or services. The District’s procurement policy requires items purchased as “sole source” include documentation which, among other things, describe the unique benefit of items as compared to other items available in the marketplace, that no other item provides equivalent or similar benefits, and the cost of the item is reasonable.

The failure to procure professional services in a manner that ensures the prudent and economical use of public moneys could result in the District paying more for these services than necessary.

Recommendations

1. The purchasing agent should ensure that District officials competitively bid all purchases which meet the bidding thresholds, as required by General Municipal Law and the District's procurement policy.
2. The purchasing agent should ensure quotes are obtained and retained on file as required by the District's procurement policy.
3. The purchasing agent should ensure all District officials involved in the purchasing process are given a copy of the District's procurement policy and are familiar with its requirements.
4. The Board should amend its adopted procurement policy to require a request for proposal or a quotation process when the need arises to obtain professional services.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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TheriJo Climenhaga

Richfield Springs Central School District
Internal Controls over Purchasing
2008M-195

The Board of Education from the Richfield Springs Central School District, would like to submit this letter as our audit response as well as our corrective action plan. The Board feels that since we had only four areas of recommendations, with two items being similar in nature, as well as two other areas being less complex to correct, a single document would contain all the necessary information.

Audit Recommendation

#1 the purchasing agent should ensure that District officials competitively bid all purchases which meet the bidding thresholds, as required by General Municipal Law and the District's procurement policy.

District Position

While the District does agree with this audit finding we would like to point out that we feel we did not burden our taxpayers with additional costs. We feel strongly that we saved our tax payers numerous amounts of money by purchasing the way we did. However, since we did not maintain our records we cannot prove this point nor could the auditors prove that we incurred additional costs to the taxpayers. We do use numerous bidding processes, RFP's and quotes. We now realize that we should have maintained the documents for the required number of years.

Implementation Plan of Action:

- The purchasing agent will maintain a schedule of District bids and cooperative bids provided by our BOCES.
- All department heads will indicate on the requisition that the item or service being purchased is part of a bid or state contract.
- The purchasing agent will be responsible for making a final determination if items are subject to bid requirements.
- The purchasing agent will ensure the prices charged agree with the original bid document or NYS contract price. The purchasing agent will also compare bid prices to state contracts to see if additional savings are available.
- Requisitions not documenting bid or quote data will be returned to the requisitioner requesting that data be provided to substantiate the bid or quotes.

Implementation Date:

Documentation of requisitions has been already instituted.

Person Responsible for Implementation:

Robert Barraco, Superintendent and Purchasing Agent

Audit Recommendation

#2 the purchasing agent should ensure quotes are obtained and retained on file as required by the District's procurement policy.

District Response

We feel the same way about this audit recommendation as we did for the audit #1 recommendation. While the District does agree with this audit finding we would like to point out that we feel we did not burden our taxpayers with additional costs. We feel strongly that we saved our tax payers numerous amounts of money by purchasing the way we did. However, since we did not maintain our records we cannot prove this point nor could the auditors prove that we incurred additional costs to the taxpayers. We do use numerous bidding processes, RFP's and quotes. We now realize that we should have maintained the documents for the required number of years

Implementation Plan of Action:

- Department heads will indicate on the requisition that the item or service being purchased has been quoted and the written documentation, as per Board of Education policy, is attached to the requisition.
- The purchasing agent is responsible for making final determination if item is subject to bid or quote requirements.
- The purchasing agent will ensure the price charged agrees with the lowest responsible quote. The purchasing agent will also compare quote prices to the state contract to see if additional savings are available.
- Requisitions not documenting bid or quote data will be returned to the requisitioner requesting that data be provided to substantiate the bid or quotes.

Implementation Date:

Documentation of requisitions has been already instituted.

Person Responsible for Implementation:

Robert Barraco, Superintendent and Purchasing Agent

Audit Recommendation

#3 The purchasing agent should ensure all District officials involved in the purchasing process are given a copy of the District's procurement policy and are familiar with its requirements

District Position

The Board of Education and the Administration agree with this audit recommendation. The fact that the majority of our Department Heads have been in their positions for numerous years, and the fact that our District is small in size, lead us to the assumption that we were following the procurement policy. The current Administration, as well as the Treasurer, was hired after the majority of the Department heads, and we simply let business continue as usual. We now realize the importance in updating and adhering to the written policy.

Implementation Plan of Action:

- A photocopy of the current procurement policy will be issued to each department head with a set of instructions on how to implement the policy and the required form for quote documentation.
- A concise matrix of the Board's procurement policy will be developed and distributed to all department heads.
- The District has had preliminary discussions with BOCES with placing our Board of Education policies on the internet with a link from our home web page. Thus enabling the procurement policy and all other policies to be obtained more easily and be readily available.

Implementation Date:

Copies of the procurement policy and a verbal set of instructions has already been issued to Department heads. The matrix will be completed, dispensed, and a tutorial of the process will be in place by December 1, 2008. An adjustment to service contract has already been signed with BOCES. The on line policies will be implemented as soon as our BOCES is able to complete the task.

Person Responsible for Implementation:

Robert Barraco, Superintendent and Purchasing Agent

Audit Recommendation

#4 The Board should amend its adopted procurement policy to require a request for proposal or a quotation process when the need arises to obtain professional services.

District Response

The District agrees with this audit recommendation. The Board recognizes that rules and laws change over time and an annual review of this policy will ensure that the District is complying. We now have a clearer vision on how the procurement policy works, the role of the purchasing agent, and the responsibility of each department head.

Implementation Plan of Action:

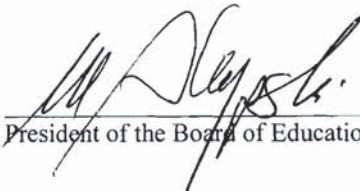
The current Administration is working closely with the Board of Education on updating and revising their policy in regards to procurement. The policy was adopted in 1992 and was last updated in 2002. Several items are under consideration for deletion and improvements.

Implementation Date:

January 21, 2009

Person Responsible for Implementation:

The Richfield Springs Board of Education



President of the Board of Education



Date

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, payroll and personal services, and information technology.

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 objective and scope by selecting for audit that area most at risk. We selected purchasing for further audit testing.

To accomplish the objective of this audit:

- We interviewed District officials and employees regarding the existing internal control systems.
- We reviewed the District's procurement policy to determine if it was adequate and comprehensive.
- We interviewed key personnel to determine the process for requisitioning goods or services, approvals required, and the process for authorization of payment.
- We reviewed the supporting documentation for 57 purchases totaling approximately \$1.6 million to determine if they were made in accordance with the District's procurement policy and pertinent laws.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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