



Mechanicville City School District Internal Controls Over Purchasing

Report of Examination

Period Covered:

May 1, 2011 — May 31, 2012

2012M-181



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2012

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 Mechanicville City 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 Mechanicville City School District (District) is located in Saratoga and Rensselaer Counties, specifically in the City of Mechanicville and segments of the Towns of Stillwater, Halfmoon, and Schaghticoke. 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 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 Business Administrator's secretary has been appointed purchasing agent by the Board. As purchasing agent, she is responsible for approving all purchases.

There are two school buildings in operation within the District, with approximately 1,330 students and 210 employees. The District's budgeted expenditures for the 2012-13 fiscal year were \$20.5 million, funded primarily with real property taxes, and Federal and State aid.

Objective

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

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?

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 condition and oversight, control environment, cash receipts and disbursements, purchasing, claims processing, 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 risks existed in the purchasing area and, therefore, we examined internal controls over purchasing for the period May 1, 2011 to May 31, 2012.

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 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, with a copy forwarded to the Commissioner of Education. 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

Effective internal controls over purchasing consist of policies and procedures that provide the District with reasonable assurance it is using its resources effectively and that it is complying with applicable laws and regulations. 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 policies and procedures, and legal requirements. The Board is responsible for designing internal controls that help ensure the prudent and economical use of taxpayer moneys when procuring goods and services.

General Municipal Law (GML) requires school districts to advertise for bids for purchases in excess of \$20,000 and public work contracts in excess of \$35,000. GML also requires the Board to adopt a procurement policy for goods and services that do not have to be competitively bid. The procurement policy should require that procurement decisions be based on District personnel's review of proposals or written or verbal quotations from vendors, describe each method of procurement, and explain when to use each method. In addition, the policy should require District personnel to maintain adequate documentation of procurement decisions, including written agreements. The Board is responsible for ensuring that District personnel are aware of, and comply with, the requirements of GML and the Board's procurement policy.

The District adopted a purchasing policy on March 22, 2007, which addresses competitive bidding. The policy, however, does not include guidance on procuring goods and services that fall below the competitive bidding thresholds. The Business Office implemented an informal policy in August 2011, which requires three quotes for all purchases over \$250. In addition, the purchasing agent sent an email in June 2012 to administrators and their respective secretaries as a reminder that District purchases should be made with vendors holding New York State (NYS) contracts as well as a listing of vendors who hold NYS contracts for the 2012-13 school year. The email also states the Business Office should be contacted in the event that staff want to make a purchase from a vendor not holding a NYS contract.

The District's purchasing process uses networked software to electronically initiate and process purchasing transactions. In order to make a purchase, the purchasing agent must approve the purchase requisition. The employee submits a requisition to their department head, who is responsible for approving the request. The employee requisitioning the goods or services is responsible for seeking

competition when required by the District's informal procedures,¹ while the purchasing agent is responsible for ensuring that competition was sought before approving the purchase requisition. Upon approval of the purchase requisition, a purchase order is generated. The purchasing agent prints four copies of the purchase order² which she disburses to the appropriate individuals.

The Board approved all policies during the annual organizational meeting for the 2011-12 fiscal year.³ The District's procurement policy was approved by the Board, even though it did not contain guidance and provisions for procuring goods and services that fall below the competitive bidding thresholds. Without these provisions in the District's procurement policy, the Board cannot be assured that the District is acquiring goods at the lowest price, which could result in unnecessary costs to taxpayers. Furthermore, when policies and procedures are not documented in writing, there is a risk that District employees and officials are unaware of the District's purchasing procedures.

We randomly selected 40 claims totaling \$115,108⁴ that did not require competitive bidding and tested those purchases to determine if the District had obtained the best quality of goods and services at the lowest possible price. There was no documentation that the District had obtained quotes to ensure that the purchases were procured in the most cost effective manner when required by their informal policy. Without adequate policies and procedures in place to solicit and document quotes for purchases that fall below competitive bidding thresholds, the District cannot be sure that they are purchasing all goods and services in the most efficient manner. Additionally, we tested seven claims totaling approximately \$1.1 million⁵ that required competitive bidding and found District officials properly advertised for bids and the Board awarded the contracts to the lowest bidder.

We also tested the purchases contained on the sample of 40 claims to ensure that they were properly initiated and approved as required by the District's purchasing process. For the claims tested, we determined that District officials have implemented control processes

¹ The informal procedures were established by an email we obtained from the purchasing agent that outlined purchasing procedures for staff.

² The printed purchase orders are colored coded and include vendor, receiving, requisitioner, and accounting copies.

³ The Board minutes state "the Board of Education approved the organizational meeting resolution which states that all polices, rules, and regulations of the Board of Education presently in effect will continue for the 2011-12 school year."

⁴ See Appendix B, Audit Methodology and Standards, for details on our sample size.

⁵ Ibid.

to ensure purchase orders are properly initiated and approved prior to purchases being made. We did not find any material discrepancies in the claims we examined.

Recommendations

1. The Board should adopt a purchasing policy that includes guidance for procuring goods and services that do not require competitive bidding.
2. The purchasing agent should retain documentation of quotes in compliance with the procurement policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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William T. Woods
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Michael J. McCarthy, Ed.D
Superintendent of Schools

December 3, 2012

NYS Office of State Comptroller
Glens Falls Regional Office
Jeffrey P. Leonard, Chief Examiner
One Broad Street Plaza
Glens Falls, New York 12801-4396

Dear Mr. Leonard:

With respect to the Report of Examination 2012M-181, the Report offers the following recommendations:

1. The Board should adopt a purchasing policy that includes guidance for procuring goods and services that do not require competitive bidding.

The District agrees with the recommendation. Although the District has procedures for procuring goods and services that don't require competitive bidding, they are not in writing and have not been approved by the Board.

2. The purchasing agent should retain documentation of quotes in compliance with the procurement policy.

The District agrees with the recommendation. At the time of audit, documentation for quoting and procurement situations was routinely kept with the department requesting goods or services.

The District will follow up as requested with a Corrective Action Plan approved by the Board.

The Superintendent of Mechanicville City School District and I would like to take this opportunity to complement the Office of State Comptroller on the auditors who performed our most recent audit. They were professional in every aspect of their work and carried out their duties in a humble and non-assuming manner. Frankly, they were a pleasure to work with.

Sincerely,

William T. Woods
Business Administrator

WTW/ms

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 condition and oversight, control environment, cash receipts and disbursements, purchasing, claims processing, 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 and/or theft. 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 on the reported objective and scope by selecting for audit the area most at risk. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed the District purchasing policy and approval of the policy in the Board minutes.
- We interviewed District officials and employees to gain an understanding of the District's purchasing and bidding procedures.
- We randomly selected a sample of general fund claims that were processed from May 1, 2011, through May 31, 2012. We selected 40 claims totaling \$115,108 from a universe of 1,349 claims totaling \$14,977,475. We reviewed the claims packets to determine if purchases were made in accordance with District policy, and if purchases were properly initiated and approved before purchases were made.
- We selected all seven claims which exceeded \$20,000⁶ each that were processed from May 1, 2011, through May 31, 2012. The seven claims totaled approximately \$1.1 million. We reviewed the bid packets, legal advertisements, and Board minutes to determine if the purchases were competitively bid and awarded to the lowest bidder.

⁶ General Municipal Law requires school districts to advertise for bids for purchases in excess of \$20,000 and public work contracts in excess of \$35,000.

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.

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