



South Country Central School District

Procurement

Report of Examination

Period Covered:

July 1, 2011 — January 31, 2013

2013M-91



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the South Country Central School District, entitled 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 are resources for local government 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 South Country Central School District (District) is located in Suffolk County in the Town of Brookhaven. The District is governed by the Board of Education (Board), which comprises nine elected members. The Board provides guidance through the enactment of policies and procedures, adoption of the annual budget, and approval of all contracts. The Superintendent, as chief executive officer, is responsible for the implementation of policies established by the Board. The Board has appointed a Purchasing Agent who is responsible for ensuring that the Board's procurement policies are implemented and that the District is in compliance with statutory procurement requirements.

There are six schools in operation within the District, with approximately 4,500 students and 750 employees. The District's budgeted expenditures for the 2012-13 fiscal year totaled \$114.9 million, funded primarily with real property taxes and State aid. Actual expenditures for the 2011-12 fiscal year totaled \$105.8 million.

Objective

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

- Did the District use competitive methods when procuring goods and services?

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 management, cash receipts, cash disbursements, claims processing, purchasing, payroll and personnel services, asset management, and information technology. Based on that evaluation, we determined that controls appeared adequate and limited risk existed in most of the financial areas we reviewed. We did determine that limited risk existed in the procurement process and, therefore, we examined the District's procurement process for the period July 1, 2011 to January 31, 2013.

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 A of this report.

**Comments of
District Officials**

The results of our audit have been discussed with District officials. District officials were given an opportunity to respond to our report, but they did not respond.

Procurement

General Municipal Law (GML) requires the Board to adopt written procurement policies and procedures that provide guidance for determining when items must be competitively bid and when quotes should be obtained for purchases not required to be competitively bid.¹ The Board is responsible for ensuring that the District procures the desired quality and quantity of goods and services at the lowest cost, in compliance with Board policies and legal requirements. To accomplish this, it is important that District officials seek competition and/or use State and county contracts when available. The use of competition provides taxpayers with assurance that goods and services are procured in the most prudent and economical manner, that goods and services of desired quality are being acquired at the lowest possible prices, and that procurement is not influenced by favoritism, extravagance, fraud, or corruption.

The Board adopted a purchasing policy in 2003 which was updated in 2005 and in July 2010. In addition, the Board adopted regulations which supplement this policy and provide guidance on procurement methods for purchases which do not require competitive bidding, including the identification of specific dollar thresholds for when quotes should be obtained and, when required, the type of supporting documentation that should be attached to the claim for payment. District policies require the use of requisitions and purchase orders for all transactions. Requisitions are approved by the Purchasing Agent and purchase orders are approved by the Assistant Superintendent for Business.

The District procured goods and services in accordance with its policy and the statutory requirements. We reviewed 36 claims² totaling \$1,199,894 that were subject to the District's procurement policy during the period July 1, 2011 to January 31, 2013, and found only minor issues which were discussed with District officials. Eight of the claims reviewed were subject to bidding requirements and all of these purchases were either properly bid or were allowable exemptions from bidding.³ Twenty-two of the reviewed claims required quotes and,

¹ GML requires bidding when an item or commodity group exceeds established dollar limits. Dollar thresholds require local governments to advertise for bids for purchase contracts that equal or aggregate to more than \$20,000, and public works contracts that equal or aggregate to more than \$35,000. Purchases made through State and county contracts need not be competitively bid.

² See Appendix A, Audit Methodology and Standards, for sample selection methodology

³ Allowable exceptions include purchases made through State contracts or cooperative bids.

with only minor issues noted, quotes were found to have been properly obtained as per the District's purchasing policy and procedures. The remaining six claims were for professional services and required requests for proposals. In all six instances, proposals were solicited and professional service contracts were signed. District employees were aware of and adhered to the competitive bidding requirements and the procurement requirements promulgated by GML and the District's purchasing policy.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board provided adequate oversight of fiscal operations. To accomplish this, we performed an initial assessment of the internal operations 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 management, cash receipts, cash disbursements, claims processing, purchasing, payroll and personnel services, asset management, and information technology.

During the initial assessment, we interviewed appropriate District officials to obtain an understanding of the organization and the accounting system, performed limited tests of transactions, and reviewed pertinent documents, such as District policy and procedure 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 adequate and limited risk existed in most of the financial areas we reviewed. We did determine that limited risk existed in the procurement process, and, therefore, we selected procurement for further audit testing. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed appropriate individuals regarding District policies and procedures.
- We reviewed the Board meeting minutes for the period July 1, 2011, through January 31, 2013.
- We reviewed the purchasing policy, District regulations, and related District procedures.
- We judgmentally⁴ chose eight vendors who were paid over \$20,000 during the audit period and who were also believed to not be on any State or county contract or other type of co-operative agreement.
- We judgmentally⁵ chose 22 vendors who were paid in excess of \$1,000 but under \$20,000 during the audit period and also believed to not be on any State or county contract or other type of co-operative agreement.
- We judgmentally⁶ chose six professional service providers from those used by the District.

⁴ Based on dollar amount and vendor name

⁵ Ibid.

⁶ Ibid.

- We reviewed contracts for professional service providers.
- We reviewed pertinent documents for the each sample selected, including the requisitions, purchase orders, vouchers, vendor invoices, State contracts, county bids, co-operative agreements, and written vendor agreements.
- We reviewed vouchers to determine if aggregate purchases exceeded bidding limits.

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 B

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