



Ulster Board of Cooperative Educational Services

Internal Controls Over Purchasing Report of Examination

Period Covered:

July 1, 2014 – December 22, 2015

2016M-158



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2016

Dear Board of Cooperative Educational Services (BOCES) Officials:

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

Following is a report of our audit of the Ulster Board of Cooperative Educational Services, 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 New York State General Municipal Law.

This audit's results and recommendation are resources for BOCES 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 Ulster Board of Cooperative Educational Services (BOCES) is an association of eight component school districts. It is governed by an 11-member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent (Superintendent) is BOCES' chief executive officer and is responsible, along with other administrative staff, for day-to-day BOCES management and for regional educational planning and coordination. BOCES delivers educational and administrative services to its component school districts and employs approximately 500 staff members. BOCES operates the Mid-Hudson Regional Information Center which services 47 districts from Orange, Dutchess and Ulster Counties. BOCES' budgeted appropriations for the 2015-16 fiscal year totaled \$51.5 million, which were funded primarily by charges to school districts for services and State and federal grants and aid.

Objective

The objective of our audit was to evaluate the effectiveness of the procurement process. Our audit addressed the following related question:

- Did BOCES officials procure goods and services through a competitive process in accordance with BOCES' procurement policy?

Scope and Methodology

We examined BOCES' purchasing transactions for the period July 1, 2014 through December 22, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of BOCES Officials and Corrective Action

The results of our audit and recommendation have been discussed with BOCES officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and recommendation and indicated they will take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP should 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 Board Clerk's office.

Purchasing

An effective system of internal controls consists of policies and procedures that provide BOCES officials with reasonable assurance that resources are safeguarded and properly accounted for. Policies and procedures should ensure that the best quality of goods and services are procured at the lowest price and without favoritism.

New York State General Municipal Law (GML) requires that purchase contracts exceeding \$20,000 and public works contracts exceeding \$35,000 within 12 months be subject to competitive bidding. Goods and services not required by law to be competitively bid, such as professional services, must be procured in a manner to assure the prudent and economical use of public moneys. The Board is responsible for the development of policies and procedures that provide for alternative proposals or quotes for goods and services through written requests for proposals (RFPs), written quotes, verbal quotes or any other method of procurement that furthers the purposes of GML.

BOCES adopted policies and procedures requiring that goods of the same kind that exceed \$20,000 for purchase contracts and \$35,000 for public work contracts within 12 months be subject to competitive bidding in accordance with GML. Irrespective of the type and nature of the purchase, all purchases require an approved purchase order before payment can be made.¹ Procurements that are exempt from GML, such as professional services,² are documented in the procurement guidelines. BOCES' procurement guidelines state that professional services are acquired at the discretion of the Superintendent or through separate provisions. Other than procurement for external auditor services, BOCES' policy or procurement guidelines do not require the use of competition, such as RFPs in procuring professional services.

We examined procurements totaling \$4,066,943 from 30 vendors who were paid approximately \$14 million during the period July 1, 2014 through December 22, 2015 to determine if they were made in accordance with BOCES' procurement policy. We judgmentally selected the items in our sample based on the highest amounts paid

¹ The Purchasing Agent and the Assistant Superintendent for Administration are the only officers who have the authority in the BOCES computer system to approve purchase orders.

² Other exemptions from the competitive bidding laws include emergency purchases, preferred vendors, New York State contracts, County contracts and other BOCES.

to vendors that did not include payroll or utility-related transactions. This included purchases totaling \$3,954,875 from 25 vendors who were paid a total of \$13.9 million, and \$112,068 from five vendors who were paid \$373,559 for professional services. Each of these transactions exceeded the bidding thresholds. BOCES officials used competitive bids, New York State contracts or Ulster County contracts for goods and services.

In procuring professional services, BOCES officials used RFPs to determine which vendor was most appropriate. While this process is consistent with best practice, BOCES should formally require the use of RFPs or other methods of soliciting competition in all instances to help ensure the best value and most prudent use of public funds in procuring professional services.

We also reviewed 15 procurements totaling \$62,706 from vendors whose total payments of \$116,364 individually were less than the \$20,000 bidding threshold, to determine if proper procedures were used in purchasing and receiving goods and services. In addition, we examined \$8,665 of a total of approximately \$190,000 in services that employees obtained personally or on behalf of component districts' officers and employees for attendance at seminars and conferences. Procurements secured for employees' attendance at conferences and related reimbursements were properly authorized, approved and supported by relevant documentation showing that they were proper BOCES charges. In all instances, BOCES used proper procedures in acquiring goods and services and all payments were made in accordance with BOCES' policy.

Recommendation

1. The Board should revise its policy to require the use of an RFP process or other appropriate method of soliciting competition in the procurement of all professional services.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

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



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June 22, 2016

State of New York
Office of the State Comptroller
Division of Local Government and School Accountability
ATTN: Tenneh Blamah
110 State Street
Albany, NY 12236

Dear Mr. Blamah:

Thank you for sending a team of auditors from your offices to examine our business practices and to make recommendations for improvement. Ulster BOCES always strives to be ethical, effective, and efficient in the use of taxpayer funding. To that end, we welcomed your review and input.

As explained in the audit report, your team focused on answering the question, "Did BOCES officials procure goods and services through a competitive process in accordance with the BOCES procurement policy?" After a careful examination of records, transactions and practices that covered an eighteen-month period, your team concluded that, "...BOCES officials used competitive bids, New York State contracts or Ulster County contracts for goods and services."

Your team recommended that, "The Board should revise its policy to require the use of an RFP process or other appropriate method of soliciting competition in the procurement of all professional services." As you know, New York State law does not require the use of an RFP in the process of acquiring professional services. Please be advised however that we will adjust our policy to insure that we take the necessary steps to insure competition in the acquisition of professional services, which will likely minimally include our widely advertising each anticipated professional service opportunity.

Again, thank you for your careful review of our business practices, for validating the ethical manner by which we conduct our business operation, and for making a recommendation as to how we can better insure that we have a competitive environment in the acquisition of professional services.

Sincerely,

Charles V. Khoury, Ed.D.
District Superintendent

Patrick Rausch
Ulster BOCES Board President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate BOCES' procurement process. To accomplish our objective, we performed the following procedures:

- We interviewed BOCES officials such as the Superintendent, the Assistant Superintendent for Administration, the Treasurer, the Purchasing Agent and the Claims Auditor, and reviewed the Board meeting minutes.
- We reviewed BOCES' procurement policy and guidelines to determine if they were in accordance with GML. We also reviewed the travel and reimbursement policy to determine the criteria used in reimbursing employees and officers for attendance at conferences.
- We judgmentally selected payments to 30 of the highest paid vendors (not being payroll-related or utilities), as recorded in the BOCES cash disbursement records, for procurement of goods and services that exceeded \$20,000. We reviewed the procurement process used by BOCES to determine whether a competitive process was used in acquiring such goods and services and whether these procurements were in accordance with written contracts or agreements as stipulated by BOCES' procurement policy and guidelines.
- We reviewed 15 procurements from vendors who were paid less than the bidding thresholds to determine if proper processes were used to provide adequate control over the goods and services as stipulated in the procurement guidelines.
- We also reviewed various payments to BOCES employees and officers and other organizations, directly linked to conference and other expenses incurred by these officers, to determine if the payments were made for proper BOCES purposes in accordance with BOCES' policies, procedures and procurement guidelines.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

APPENDIX C

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