

Greenwood Lake Union Free School District

Procurement and Claims Processing

DECEMBER 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Greenwood Lake Union Free School District

Audit Objective

Determine whether Greenwood Lake Union Free School District (District) officials procured goods and services in a cost-effective manner and ensured claims were audited for accuracy and completeness.

Key Findings

District officials did not always procure goods and services in a cost-effective manner or ensure claims were audited for accuracy and completeness.

- District officials did not use a competitive process for 16 or 27 percent of the purchases we reviewed.
 - Request for proposals (RFPs) for three professional services totaling \$69,320 were not issued and the RFP for external audit was last advertised in 2011.
 - 13 purchases totaling \$99,231 lacked quote and sole source documentation.
- Purchasing duties were not properly segregated and adequate mitigating controls were not established.
- The claims audit process was not adequate. As a result, the District overpaid three vendors totaling \$14,208.

Key Recommendations

- Periodically issue RFPs to solicit competition when seeking professional services.
- Obtain verbal and written quotes and ensure that all proper documentation is maintained.
- Ensure a thorough audit of claims is conducted before authorizing payments.
- Review overpayments identified in this report and seek recovery as appropriate.

District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the District's response letter.

Background

The District is located in the Town of Warwick in Orange County.

The District is governed by a seven-member Board of Education (Board) responsible for educational and financial affairs.

The Superintendent of Schools (Superintendent), along with other administrative personnel, is responsible for day-to-day operations.

The accounts payable clerk is the Board-appointed purchasing agent, responsible for overseeing the purchasing process and ensuring procurements are made in compliance with established policies and procedures.

The Board has delegated its claims auditing powers and duties to a claims auditor.

Quick Facts

2020-2021 Budgeted Appropriations	\$26,360,265
Procurements Subject to Competitive Process	\$5,075,105
Procurements Examined for Competitive Process	\$1,347,825

Audit Period

July 1, 2019 – April 29, 2021

Procurement and Claims Processing

How Should District Officials Procure Goods and Services in a Cost-Effective Manner?

New York State General Municipal Law (GML) Section 103 generally requires competitive bidding for purchase contracts exceeding \$20,000 and public works contracts exceeding \$35,000, with certain exceptions. A school district is authorized to make purchases using contracts awarded by the New York State Office of General Services (State contracts) or cooperative bids by other governments, school districts and boards of cooperative educational services (BOCES).

GML Section 104-b states that goods and services not subject to competitive bidding requirements must be procured in a manner that ensures the prudent and economical use of public funds in the taxpayers' best interest. Advertising requests for proposals (RFPs) or obtaining written or verbal quotes are effective ways to ensure that a district receives the needed goods and services for the best price.

The District's procurement policy requires the development of procedures for the procurement of goods and services not subject to competitive bidding requirements. These procedures should define the methods to be used for procuring goods and services and specify when each method should be used. For example, sole source is a noncompetitive procurement process that requires the basis for determining there is no substantial equivalent or competition be justified and properly documented. In addition, Education Law Section 2116-a (3)(b) as well as the District's policy require an RFP for its external auditor at least every five years.

The purchasing agent is responsible for ensuring staff involved in purchasing appropriately solicit competition by obtaining quotes or proposals as required by district policies. These responsibilities include reviewing supporting documentation, such as verbal and written quotes, RFPs, and justifications for not seeking competition (e.g., emergency purchases and sole source vendor determinations) before purchases are made.

Where practical, a district should segregate incompatible duties so that the same person is not involved in and cannot perform multiple aspects of a transaction. The approval to purchase goods or services should be authorized by personnel other than the employee able to create and modify vendors or request the purchase or receive and verify items ordered.

...[G]oods and services not subject to competitive bidding requirements must be procured in a manner that ensures the prudent and economical use of public funds...

Officials Did Not Always Seek Competition for Goods and Services

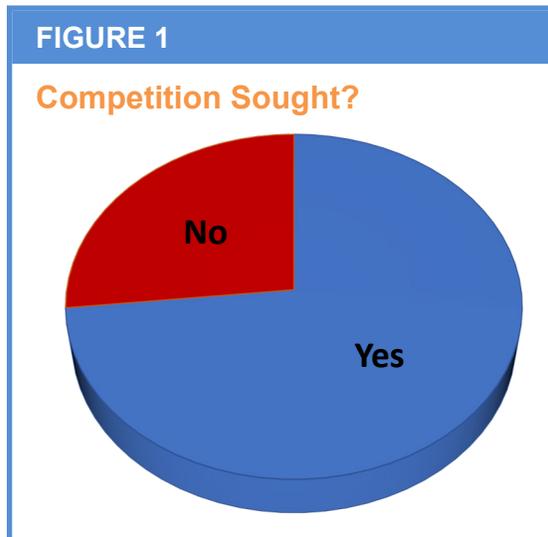
We reviewed 60 purchases made during our audit period totaling \$1,347,825 to determine whether District officials sought competition and whether they were for appropriate District purposes.¹ We found that all were for appropriate District purposes. However, District officials did not use a competitive process for 16 of these purchases (27 percent) totaling \$168,551 (Figure 1).

Competitive Bidding – We reviewed 17 purchases totaling \$952,628 subject to competitive bidding during our audit period and found that all purchases were properly purchased using competitive bidding or State contract.

Professional Services – District officials did not always seek competition for professional services through RFPs because they did not develop written procedures as required by the procurement policy. We reviewed 10 professional services contracts totaling \$128,802. The District could not provide RFPs for three of these professional service providers with contracts totaling \$69,320. For example, the District paid \$36,600 to its external auditor in 2020. Although Education Law and District policy require an RFP to be issued at least every five years, District officials have not issued an RFP for an external auditor in over 10 years.

Quotes – The District did not always use RFPs and written or verbal quotes on purchases below the bidding threshold because the Board did not include detailed guidance in the procurement policy. In addition, District officials did not develop written procedures to clearly address procurement of those purchases. Although policies were reviewed and readopted annually by the Board, the current policy was last updated in 2012 and did not:

- Contain the methods officials and employees should use when procuring professional services and goods and services below the competitive bidding thresholds,



¹ Refer to Appendix C for information on our sampling methodology

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- Identify circumstances when the defined methods will not be in the District's best interest, and
 - Require adequate justification of determination and documentation.

Although the District did not establish detailed guidance for procurements below the competitive bidding thresholds, we reviewed 33 non-professional service procurements over \$2,000 and below bidding thresholds to see if competition was sought for such procurements. We found District officials did not obtain quotes for 13 purchases totaling \$99,231. We determined that six of the 13 totaling \$43,877 did not have supporting documentation that competitive quotes were obtained.

In addition, District officials told us seven of the 13 purchases totaling \$55,354 were from sole source providers and that they did not seek competitive quotes for these purchases. However, four of the seven purchases totaling \$40,212 were for common IT equipment including tablets, cameras and laptops; such items are generally available from a variety of vendors and would not be considered sole source items. Because District officials did not sufficiently justify and document the vendors as sole source, we could not determine whether these purchases were valid exceptions.

Without adequate policies and procedures detailing procurement requirements to seek competition using RFPs or written and verbal quotes, there is an increased risk that goods and services may not be procured in the most cost-effective manner, to ensure the most prudent and economical use of public money, without favoritism.

The Purchasing Agent Performed Incompatible Duties

District officials did not properly segregate purchasing duties or implement adequate mitigating controls. The purchasing agent was responsible for all aspects of procuring goods and services, such as processing, preparing, and modifying purchase orders (POs); ordering supplies and equipment; receiving and inspecting shipments; and researching pricing.

In addition, she is the accounts payable clerk who is responsible for entering and modifying vendors into the District's computerized system, completing payment authorization forms (cover sheets), matching invoices to the POs, checking the availability of appropriations and creating claims voucher packets. With these incompatible duties, the purchasing agent could create fictitious vendors to initiate and conceal fraudulent purchases without detection.

We reviewed the same 60 purchases totaling \$1,347,825 discussed previously, to determine whether payments were accurate, POs were properly increased when warranted, and claims were supported, documented, and approved by department heads. We found discrepancies with 24 payments totaling \$299,267.

District officials did not properly segregate purchasing duties or implement adequate mitigating controls.

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- One payment totaling \$15,826 for an annual overnight field trip contained mathematical errors totaling \$805 because of insufficient documentation to verify amounts charged and trip attendance; these errors led to the District making an overpayment of \$805. After we notified the District of the overpayment, the District contacted the vendor and received a credit towards their next field trip.
 - PO increases were not always properly performed and documented in 12 POs totaling \$565,577. Eight of these POs had increases totaling \$116,865 that were not properly documented on the PO slip. Six out of the 12 POs totaling \$64,913 were not increased in the financial application, and the payment exceeded the total PO amount by \$10,603. For example, one PO for plumbing services was established for \$26,000 in the financial system but the payment totaled \$28,433, exceeding the PO amount by \$2,433.
 - Twelve payments totaling \$130,631 did not contain packing slips as supporting documentation of receipt of goods. For example, packing slips were not included in the voucher packet for math workbooks purchased totaling \$17,571. In addition, two out of the 12 payments totaling \$22,985 for IT equipment were not approved for payment by the department head. Therefore, receipt of goods could not be verified.

District officials were aware that accounts payable and purchasing agent duties were not segregated but believed that the claims audit was a sufficient compensating control. However, we found the claims auditing process was inadequate, as discussed further. When duties are not properly segregated, there is increased risk that errors could occur and go undetected and uncorrected, or for fraud to occur in the normal course of their duties without being detected.

How Can Officials Ensure an Effective Claims Auditing Process Exists?

An effective claims audit process ensures that every claim against a district is subjected to an independent, thorough, and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements and district policies, and that the amounts claimed represent legitimate and proper district expenditures.

A board should establish a policy which details all the claims auditor's duties and specifically explains any responsibilities mentioned within the policy. For example, it is important for the claims auditor to determine whether the claims are properly supported and whether the district received the goods or services described on each claim by reviewing detailed receipts, invoices and receiving documentation. The claims auditor should compare the claim with the related PO to determine

An effective claims audit process ensures that every claim against a district is subjected to an independent, thorough and deliberate review...

whether the PO preceded the invoice date and the amount billed agrees with the PO, bid or quote. An effective claims process helps control expenditures and ensure that purchases are properly authorized, competitive pricing policies have been complied with, and adequate funds are available in the budget.

The Claims Auditing Process was Incomplete

The Board appoints the claims auditor at the annual reorganizational meeting. The Board adopted a policy to serve as guidance to the claims auditor in performing her duties. The policy requires the claims auditor to formally examine claims packets to ensure that: all accounts, charges, claims and demands are valid charges against the District; there are available funds within the appropriate codes to support the expenditure; and that claims meet requirements established by the Regulations of the Commissioner of Education and/or the Office of the New York State Comptroller (OSC).

The claims auditor did not have well-defined duties and was not provided access to the District's financial application to verify availability of funds and vendor agreements. The Board did not provide a checklist or guidelines for the claims auditor on what should be reviewed during the audit of claims. In addition, the policy did not include specific procedures for reviewing a claim packet that require the claims auditor to ensure the District's purchasing policies and OSC guidelines are followed, that open POs had not exceeded the amount available, and that itemized receipts, packing slips and signed delivery slips were attached to a claim when appropriate.

Due to lack of segregation of the purchasing agent's duties, a thorough and deliberate review of claims became even more essential. However, the claims audit was not adequate, and as a result many of the procurement issues discussed previously in this report were not identified. We reviewed the same 60 voucher packets totaling \$1,347,825 discussed previously to determine whether they included sufficient supporting documentation, rates charged by vendors agreed to the contract terms and that PO dates preceded invoice dates. We found eight purchases totaling \$107,820 had invoices dated prior to PO approval and lacked justifying documentation.

We also identified two professional service vendors that charged the District more than the hourly agreed upon contract rate. We further tested 11 payments totaling \$132,200 paid to the two vendors during the audit period and found overpayments totaling \$13,403. One vendor overcharged the District \$9,647 for plumbing/HVAC services on three out of five invoices. The second vendor overcharged a total of \$3,756 out of \$30,455 paid for painting services.

The claims auditor stated that she was not provided the purchasing policy, a checklist of what the Board wanted her to review or access to the financial

records to verify contract rates and the availability of funds. However, the claims auditor did not request additional supporting documentation to perform a more thorough audit for accuracy and completeness.

Because claims were paid without adequate supporting documentation, the District paid more than agreed upon amounts. There is also an increased risk that the goods or services may not have been received, or inappropriate claims could be paid.

What Do We Recommend?

The Board should:

1. Review and update the written procurement policies to ensure they include detailed guidance for procuring professional services and goods and services below competitive bidding thresholds.
2. Ensure that the District actively solicits quotes for the annual external audit using the RFP process at least every five years as required.
3. Provide the claims auditor with procedures and a checklist to conduct a thorough and deliberate audit of each claim before authorizing payment to ensure it is accurate, sufficient funds are available, contains sufficient supporting documentation, follows required statutes and policies and ensures POs are created prior to an invoice being received.
4. Ensure that the claims auditor is provided access to District records to verify the availability of funds as well as contract terms and quoted rates.
5. Direct District counsel to review overpayments identified in this report and seek recovery as appropriate.

District officials should:

6. Develop written procurement procedures that include procurement of professional services and goods and services below the competitive bidding thresholds and set requirements for documentation of actions taken.
7. Ensure all employees involved in the District's purchasing process are provided up to date copies of the purchasing policy and procedures.
8. Oversee the procurement process and ensure purchases are made in compliance with the District's policy and procedures and that a competitive process is used when bidding is not required.
9. Segregate procurement duties when practical or implement adequate mitigating controls.

Appendix A: Response From District Officials



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November 15, 2021

Newburgh Regional Office Chief Lisa Reynolds
33 Airport Center Drive Suite
103 New Windsor, New York 12553

Dear Ms. Reynolds,

The Greenwood Lake School District is in receipt of the draft copy of the audit report titled Procurement and Claims Processing, Report examination 2021M-147 for the period covering July 1, 2019 – April 29, 2021. Please accept this letter to serve as the District's formal response and Corrective Action Plan to the draft report.

The district acknowledges the validity of the audit finds and is satisfied, given the length and depth of the examination of the District's internal controls that we are generally promoting efficiency and protecting the District's assets from loss or misuse. With that said, the District views this audit as an opportunity to review, strengthen, and improve our procurement processes and ensure that clear and consistent procurement processes are developed and followed.

Audit Recommendation 1: Review and update the written procurement policies to ensure they include detailed guidance for procuring professional services and goods and services below competitive bidding thresholds.

Audit Recommendation 6: Develop written procurement procedures that include procurement of professional service and goods and services below the competitive bidding thresholds and set requirements for documentation of actions taken.

Audit Recommendation 7: Ensure all employees involved in the District's purchasing process are provided up to date copies of the purchasing policy and procedures.

Audit Recommendation 8: Oversee the procurement process and ensure purchases are made in compliance with the District's policy and procedures and that a competitive process is used when bidding is not required.

Implementation Plan of Action: For the above recommendations, the district has developed written procurement procedures for professional services and goods & services priced below the competitive bidding thresholds and set requirements for documentation of actions taken by adopting Policy Exhibit #5410E Purchasing Ranges and Requirements on October 18, 2021. This document, along with the Purchasing Policy, has been shared with all employees involved in the district's purchasing process. Additionally, the Superintendent for Business is charged with ensure purchases are made in compliance with the District's policy and procedures and that a competitive process is used when bidding is not required.

Audit Recommendation 2: Ensure that the district actively solicits quotes for the annual external audit using the RFP process at least every five years as required.

Implementation Plan of Action: For the above recommendation, the district awarded External Auditing Services RFP on September 20, 2021 and charged the Assistant Superintendent for Business with overseeing that this process is implemented at least every five years.

Audit Recommendation 3: Provide the claims auditor with procedures and a checklist to conduct a thorough audit of each claim before authorizing payment to ensure mathematical accuracy, availability of funds, sufficient

supporting documentation, conforms to required statutes and policies, and ensures Purchase Orders are created prior to an invoice being received.

Audit Recommendation 9: Segregate procurement duties when practical or implement adequate mitigating controls.

Implementation Plan of Action: For the above two recommendations, to adequately implement mitigating controls, the District has provided the Claims Auditor with the OSC “Local Government Management Guide: Improving the Effectiveness of Your Claims Auditing Process”. In addition, the Board of Education has adopted Policy Exhibit #1335E Checklist for Audit of Claims on October 18, 2021 that details the claims review process to ensure each claim is thoroughly evaluated and contains adequate supporting documentation prior to authorizing payment.

Audit Recommendation 4: Ensure that the claims auditor has access to District records to verify the availability of funds as well as contract terms and quoted rates.

Implementation Plan of Action: As evidence that there are sufficient funds available, the District Treasurer supplies the claims Auditor with an Appropriation Status Report with every check warrant. In addition, the District provides a list of relevant contract terms, rates, and allowances to the Claims auditor for reference. This list is updated with any changes that occur throughout the year.

Audit Recommendation 5: Direct the District counsel to review overpayments identified in this report and seek recovery as appropriate.

Implementation Plan of Action: The District has sent a letter to the two vendors cited to recover the overpayment.

During the Exit Conference, District Administrators in conversation with the OSC Auditors recognized that several audit recommendations were based on subjective standards and preferences. While the District’s opinion on audit recommendations is that they should be based on statutory guidelines, provisions of state law or Board Policy, the subjective recommendations have also been addressed within the Corrective Action Plan.

Sincerely,

Sarah Hadden
Superintendent of Schools

*Letter also approved by
govt Board of Education on
11/15/21*

See Note 1 Page 10

Appendix B: OSC Comments on the District's Response

Note 1

Audit recommendations were not based on subjective standards and preferences, recommendations were based on the District's policies, procedures and GML.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed district officials and employees involved in the purchasing process to gain an understanding of the District's procurement practices and controls.
- We interviewed the claims auditor to gain an understanding of the claims audit process.
- We reviewed the Board's adopted policies and written procedures to determine whether they addressed procuring goods and services that are not subject to competitive bidding, in accordance with statutory requirements.
- We reviewed cash disbursement data for our audit period and identified 36 purchases totaling \$3,566,164 that were subject to competitive bidding requirements. Based on largest amounts paid to vendors, we selected 17 purchases totaling \$952,628, (of which 7 were for public works and 10 for non-public works), to determine whether district officials solicited bids and whether payments were for proper District purposes.
- We reviewed cash disbursement data for our audit period and identified 30 purchases for professional services providers totaling \$586,340. We reviewed our identified population with district officials to determine whether all vendors were professional services providers. We selected professional service providers based on largest amounts paid and reviewed the contracts of 10 paid professional service providers totaling \$128,802 during our audit period, and reviewed the RFP documentation, if any, to determine whether district officials sought competition for the services, and whether payments were made per contracts and for proper District purposes.
- To select our sample, we followed the District's 2010 purchasing policy provided by the Purchasing Agent, we removed vendors who were paid less than \$2,000 or more than \$20,000 or appeared to be professional providers. We identified 170 purchases totaling \$922,601 during the audit period, for which quotes should have been obtained., We judgmentally selected 33 purchases totaling \$266,395 based on unusual names and various types of goods and services provided, to determine whether quotes were obtained. We reviewed documentation for the selected purchases to determine whether district officials obtained quotes or used an acceptable alternative purchasing method, provided sufficient documentation, and whether payments were for proper District purposes.
- We reviewed 60 claims packets totaling \$1,347,825 selected for testing to determine if the claims were properly audited, contained supporting

documentation, were confirming purchases, and approved for payment by the claims auditor.

- We reviewed the purchase order history for 12 increased purchase orders totaling \$565,577 identified during testing, to determine if they were properly increased in the financial application and had necessary funds to cover the payments.
- We identified overpayments during the professional services testing. We then reviewed all the invoices paid to the two vendors during the audit to determine the amounts overpaid.
- We reviewed conflict forms to determine if district officials, Board members and spouses had any conflicting employment or business interest.

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.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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