

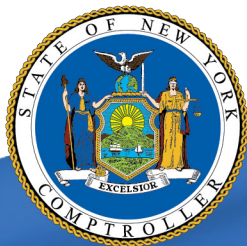
# Lyndonville Central School District

## Procurement and Claims Audit

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**DECEMBER 2022**

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

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# Report Highlights

## Lyndonville Central School District

### Audit Objective

Determine whether Lyndonville Central School District (District) Board of Education (Board) and District officials properly procured goods and services and audited and approved claims prior to payment.

### Key Findings

The Board and District officials did not ensure goods and services were procured in accordance with applicable statutes and/or District policy and did not ensure claims were properly audited and approved prior to payment.

- District officials did not comply with competitive bidding requirements and/or the District's purchasing policy and procedures for 65 percent of the purchases we reviewed totaling \$263,023.
- The claims auditor did not properly audit and approve 74 percent of the claims we reviewed before they were paid: 37 claims totaling \$235,379 lacked documentation demonstrating compliance with the purchasing policy, 34 claims totaling \$241,749 lacked documentation confirming goods were received, and four claims included sales tax or late fees.
- The Board did not ask for and was not provided with monthly warrants (a list of audited claims) and was not properly overseeing the claims auditor or the claims audit function.

### Key Recommendations

- Ensure goods and services are procured in compliance with competitive bidding requirements and the District's policy and procedures and that a proper claims audit is conducted prior to paying claims.
- Provide oversight of the claims auditor and claims audit function.

District officials agreed with our recommendations and indicated they would take corrective action.

### Background

The District serves the Towns of Carlton, Gaines, Ridgeway and Yates in Orleans County. The seven-member Board is responsible for the District's general management and control of financial affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer responsible for the District's day-to-day management. The School Business Administrator (Administrator) oversees the District's business operations and is also the Board-appointed purchasing agent, responsible for ensuring all goods and services are procured in the most prudent and economical manner possible and in compliance with established policies and procedures.

The Board appointed a claims auditor, who is responsible for ensuring claims are properly supported and meet purchasing policy and applicable statute requirements.

#### Quick Facts

2020-21 Appropriations \$14.1 million

Purchases Reviewed \$462,891

#### Claims Processed During Audit Period

Amount of Claims \$11.2 million

Claims Reviewed \$504,677

### Audit Period

July 1, 2020 – May 10, 2022

# Procurement and Claims Audit

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## How Should Officials Procure Goods and Services?

Officials should comply with GML Section 103 (GML 103) and the District's purchasing policy (policy) that require the District to solicit competitive bids for purchase contracts that aggregate to more than \$20,000, and public works contracts that aggregate to more than \$35,000 within a year. In lieu of seeking competitive bids, a school district is authorized to "piggyback" which allows the school district to procure certain goods and services through the use of other governmental contracts. In some cases, group purchasing organizations (GPOs) may advertise the use of such governmental contracts to other local governments. This "piggybacking" exception allows school districts to benefit from the competitive process already undertaken by other local governments. However, when procuring goods and services in this manner, officials must review the contract to determine that: (1) the contract was awarded by another governmental entity; (2) the contract was made available for use by the other governmental entity; and (3) the contract was originally awarded to the lowest responsible bidder or on the basis of best value in a manner consistent with GML 103. Although not required under the District's policy, school district officials should perform a cost-benefit analysis (analysis) before using the exception. This will help ensure that the school district is furthering the underlying purposes of the exception, and that the procurement is consistent with the purposes of competitive bidding.

In accordance with GML Section 104-b (GML 104-b), the board must adopt written policies and procedures for the procurement of goods and services not required by law to be competitively bid, such as professional services. This section also requires that goods and services to be procured prudently, economically and in a manner that is in the best interests of taxpayers and is not influenced by favoritism, extravagance, fraud or corruption. Using requests for proposals (RFPs) or obtaining written or verbal quotes is an effective way to help ensure that the school district receives the desired services for the best price.<sup>1</sup> It also helps officials avoid any potential appearance of partiality when awarding these contracts.

Officials should ensure compliance with the Board adopted procurement procedures that require officials to seek competitive pricing as follows:

- Two catalog price comparisons for purchase contracts under \$750,
- Two verbal quotes for purchases between \$751 and \$1,500,
- Three verbal or written quotes for purchases between \$1,501 and \$4,000,
- Three written quotes for purchases between \$4,001 and \$20,000, and

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<sup>1</sup> Refer to our publication *Seeking Competition in Procurement* available on our website at [www.osc.state.ny.us/localgov/pubs/lmgm/seekingcompetition.pdf](http://www.osc.state.ny.us/localgov/pubs/lmgm/seekingcompetition.pdf).

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- Three written quotes or proposals for contracts for public work between \$2,001 to \$35,000.

In lieu of obtaining quotes, proposals or bids, school district officials can choose to purchase goods and services off New York State contracts (State contract). This allows the school district to benefit from the competitive process already undertaken by the State without the cost-benefit analysis and steps required for “piggybacking”. However, when procuring goods and services through State contracts, officials are responsible for ensuring that the prices paid are in accordance with those contracts.

### **Officials Did Not Always Procure Goods and Services in a Competitive Manner or Comply with the District’s Purchasing Policy and Procedures**

We reviewed 79 purchases totaling \$462,891 and found that officials did not procure goods and services in a competitive manner or comply with the District’s purchasing policy and procedures for 51 purchases (65 percent) totaling \$263,023.

Quotes and Catalog Pricing – Of the 79 purchases totaling \$462,891, the District’s procedures required officials to obtain quotes or catalog prices for 41 purchases totaling \$139,272. However, District officials did not obtain competitive pricing such as quotes or catalog prices for 31 purchases (76 percent) totaling \$73,860. For example, the District did not receive formal written quotes for the purchase of air conditioning units totaling \$8,700 or for goods and services relating to a soccer dugout project totaling \$5,800. The Administrator told us he did not realize that the purchasing policy and procedures were not being followed and that as the purchasing agent, he needed to better monitor adherence to the District’s policy and procedures.

State Contract and Group Purchasing Organizations (GPO) – District officials did not verify that prerequisites were met prior to awarding contracts pursuant to the “piggybacking” exception. Specifically, the District procured goods and services for three purchases totaling \$79,866 from a vendor who was listed as an eligible contractor on a GPO website without verifying that the vendor was awarded a contract by another governmental entity, that the contract was made available for use by other government entities or that the original contract was awarded in a manner consistent with GML 103. District officials also could not demonstrate that they had performed any type of analysis to determine whether procuring the goods and services through a GPO was cost effective. Although preparing a cost-benefit analysis is not required by District policy, it would help ensure that the District’s procurement of goods and services is cost effective. The Administrator told us he was unaware of the additional steps required when purchasing through

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...[O]fficials did not procure goods and services in a competitive manner or comply with the District’s purchasing policy and procedures for 51 purchases (65 percent) totaling \$263,023.

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a GPO and that officials had not performed any type of analysis to determine whether procuring the goods and services through a GPO was cost effective.

District officials also purchased goods and services using State contracts without verifying that the goods or vendors were part of a valid State contract. District officials purchased goods totaling \$3,157 under the assumption that they were procuring the goods off of State contract, but the items purchased were not actually listed on a valid State contract. Similarly, officials purchased goods totaling \$4,015 from a vendor that had not been awarded a State contract. The Administrator and account clerk stated they did not realize these goods and vendor were not on State contract.

Competitive Bidding – The District made two payments totaling \$57,343 to one vendor for a public works roofing project without seeking competitive bids, as required by GML 103 and District policy. Although District officials told us that the roofing project was an emergency purchase, officials could not provide any documentation to support the statements. Furthermore, we found that project work did not start until four months after the purchase order was issued and the District did not seek any competition to ensure it was paying a fair and reasonable price for this work.

Professional Services – During the audit period, the District paid approximately \$1.1 million for professional services. Rather than developing the required policies and procedures for the procurement of professional services, the Board established procedures that explicitly excluded professional services from competition. We reviewed 13 payments to 12 professional service providers totaling \$44,782 and verified that none of the services were procured using a competitive process. Officials stated they did not use a competitive process because District procedures did not require it.

Although there are no statutory competitive bidding requirements for the procurement of professional services, GML 104-b does require that school districts adopt policies and procedures governing the purchase of goods and services when competitive bidding is not required. Prudent business practices provide that contracts for professional services be awarded after soliciting competition. Sending out RFPs helps ensure that the District receives the desired services on the most favorable terms or for the best value. The two Board members we spoke with told us they were not aware that GML 104-b required the District to establish procedures for procuring professional services and thought they could exclude professional services from competitive pricing requirements.

In addition, for one service provider, the District paid \$2,550 for services before the services were rendered and with no contract in place. The remaining purchases we reviewed totaling \$199,868 were procured in accordance with competitive bidding requirements and the District's policy and procedures.

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By not complying with competitive bidding requirements and the District's policy and procedures for the procurement of goods and services, and not requiring competitive pricing for professional services, the Board and District officials are not providing assurance they are obtaining good and services in a prudent and economic fashion in the best interest of taxpayers. In addition, this also reduces the District's ability to guard against favoritism, extravagance, fraud and corruption.

## How Should a Board Ensure Claims Are Properly Audited and Approved?

Generally, a board must audit all claims against a school district before they are paid or appoint a claims auditor to assume the board's powers and duties to audit and approve claims.<sup>2</sup> If the board appoints a claims auditor, the board should develop and adopt guidance for the claims auditor that describes the claims auditor's duties and responsibilities. Claims should not be paid or considered approved for payment until they have been audited and the warrant (i.e., a list of audited claims) is approved by the claims auditor. An effective claims auditing process helps to ensure all claims comply with statutory requirements, contain adequate supporting documentation, represent actual and necessary expenditures and comply with school district policies and procedures.

The Board should ensure its adopted guidance for the claims auditor position is adhered to. This guidance includes a checklist that requires the claims auditor to verify that each claim: contains evidence of adherence to the District's purchasing policy; includes support confirming the receipt of the goods and/or services; and excludes unnecessary fees such as sales tax and late fees. If a claim includes late fees, the claims auditor is required to investigate the reason for the late fees. Following the approval of claims, the claims auditor is supposed to generate a list of audited claims with a warrant authorizing and directing the Treasurer to make payment and affix a written certification to be provided to the Board each month.

## The Claims Auditor Did Not Properly Audit and Approve Claims

We reviewed 68 claims approved during our audit period totaling \$504,677 and found that the claims auditor did not properly audit and approve 50 claims (74 percent).<sup>3</sup> Specifically, the claims auditor approved 50 claims for payment totaling \$284,847 even though the claims lacked supporting documentation and/or included inappropriate charges as follows:<sup>4</sup>

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... [T]he claims auditor approved 50 claims for payment totaling \$284,847 even though the claims lacked supporting documentation and/or included inappropriate charges. ...

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<sup>2</sup> A board, by resolution, may authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage and freight and express charges. The claims for such prepayments should be audited as soon as possible after payment and included on the next warrant as prepaid amounts.

<sup>3</sup> See Appendix B for information on our sampling methodology.

<sup>4</sup> Some claims had multiple exceptions.



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- 37 claims totaling \$235,379 did not contain evidence that District officials complied with the District's purchasing policy and procedures. Specifically, 29 claims lacked evidence demonstrating that the required number of quotes or catalog prices had been obtained, one claim lacked evidence competitive bidding took place and seven claims indicated goods and services were purchased using State contract pricing or a GPO but lacked supporting documentation to allow the claims auditor to verify the validity of the State contract or GPO.
  - 34 claims totaling \$241,749 lacked evidence indicating that the goods and/or services were received.
  - Four claims included sales tax or late fees totaling \$106.

The claims auditor could not provide an explanation for the four claims in our sample she approved that contained sales tax or late fees. The claims auditor also told us she does not review purchases to confirm they were made in accordance with competitive bidding requirements or District policy and procedures. She was not fully aware of her responsibilities for auditing claims and was not following the Board's established guidance document for reviewing and approving claims.

We also found that the warrants (list of audited claims) were being prepared by an account clerk in the Business Office, not the claims auditor, and the warrants were not being provided to the Board each month. When warrants are prepared by an individual other than the claims auditor, claims could be added or removed without the claims auditor's knowledge or approval. The 17 warrants totaling \$2.4 million<sup>5</sup> that we reviewed, were not presented to the Board timely. For example, four warrants totaling \$427,643 generated in November 2020, August 2021, October 2021 and November 2021, had not yet been presented to the Board as of May 2022, or between six and 18 months after the claims were paid.

District officials told us that they did not realize that the claims auditor needed to provide warrants to the Board each month and the Board did not request them. The claims audit function is an integral part of the Board's fiscal oversight responsibilities. If the Board is not provided with the warrants timely, then the Board cannot adequately oversee the claims auditor in the performance of their duties.

In addition, two warrants totaling \$278,938 that were presented to the Board were not signed by the claims auditor. The account clerk who created the warrants told us they did not believe the claims auditor needed to review and sign the warrant before the Board reviewed the warrant because the claims auditor reviewed and approved each individual claim. However, if the claims auditor does not prepare

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<sup>5</sup> See Appendix B for sampling methodology.



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or review the warrants, then there is an increased risk that additional claims could be added and paid without the claim auditor’s knowledge or approval.

Because the Board was not properly overseeing the claims audit function, the claims auditor was not performing an adequate claims audit and there is an increased risk that improper or unsupported payments could be made and not be detected and corrected.

## **What Do We Recommend?**

The Board should:

1. Ensure that District officials and employees are familiar with the District’s purchasing policy and procedures.
2. Require the purchasing agent and claims auditor to monitor and enforce compliance with the Board-adopted purchasing policy and procedures and competitive bidding requirements.
3. Revise the purchasing policy to require that officials perform and document a cost-benefit analysis prior to “piggybacking” or using GPO contracts and to review each contract to ensure the contract was properly bid and awarded in a manner consistent with GML Section 103.
4. Review and revise its purchasing policy and procedures to include steps for procuring professional services and prescribing methods for soliciting competition for such services through the use of RFPs and written or verbal quotes.
5. Provide adequate oversight to ensure the claims auditor properly carries out the Board’s claims audit duties.

The Administrator should:

6. Procure goods and services using competitive pricing in accordance with GML Section 103 and the District’s policy and procedures and obtain the appropriate number of quotes for purchases as required by the purchasing policy.
7. Ensure the appropriate documentation, such as quotes, bids and proposals are retained and provided to the claims auditor for review.
8. Prepare and document an analysis when “piggybacking” off other government contracts to help ensure contracts are awarded in compliance with GML Section 103 and that they are cost effective for the District.
9. Review documentation and verify that both the vendors and the goods and services procured through State contracts are included on valid contracts.

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10. Solicit competition for professional services through the use of RFPs or written quotes.

The claims auditor should:

11. Generate the list of audited claims with a warrant authorizing and directing the Treasurer to make payment with written certification affixed to the warrant and provide the warrant to the Board each month.
12. Ensure all claims contain proper supporting documentation, comply with competitive bidding requirements and District policy and do not include improper charges such as sales tax and late fees.
13. Attend training and review the District's policy and procedures to understand all claims auditor responsibilities.

# Appendix A: Response From District Officials

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## Lyndonville Central School

We strive to lead in academic excellence, safety and community pride.

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*School Business Administrator*  
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(585)765-3107

December 8, 2022

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
Melissa Myers, Chief Examiner  
295 Main Street, Suite 1032  
Buffalo, NY 14203-2510

Re: Lyndonville Central School District, Report of Examination 2022M-144

The Lyndonville Central School District is in support of the audit recommendations and has already begun their implementation.

The Lyndonville Central School District places the highest regard in using funds efficiently and appropriately to provide a high level of education to the children and families of the community.

We would like to thank the auditors for their work and recommendations. Their time was appreciated; and their guidance will assist us to make improvements to our business processes.

Sharon Smith  
Superintendent of Schools

Housel Avenue, P. O. Box 540 Lyndonville, NY 14098-0540  
Phone: (585) 765-3101 Fax: (585) 765-2106

## Appendix B: Audit Methodology and Standards

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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 assessed internal controls over the procurement and claims audit process by reviewing policies and procedures, reviewing Board meeting minutes and interviewing officials to gain an understanding of the processes.
- Of 110 warrants totaling \$11.2 million, we used our professional judgment to select 17 warrants (or 15 percent) totaling \$2.4 million including: 10 from the general fund, four from the federal fund, two from the school lunch fund and one from the capital fund. We weighted the number of warrants chosen for each fund by total warrants included in each fund during our audit period and chose individual warrants based on high total value and a variety of purchase types within each warrant.
- We judgmentally selected 68 claims totaling \$504,677 from the 17 warrants previously selected and reviewed the corresponding claim packet, warrant and check dates to determine whether the claims auditor audited and approved the claims prior to payment. We used our professional judgment to select claims that represented varying values and a variety of vendors from each fiscal year in our audit period.
- From the claims previously selected and reviewed, we judgmentally selected 79 purchases totaling \$462,891 to review and determine whether the purchases were made in compliance with GML Section 103 and District policy and procedures. To make our selections, we removed low risk purchases (e.g., utilities) and disbursements that were not purchases (e.g., tax refunds), and selected purchases with a variety of dollar values that would be subject to varying competitive bidding requirements and District policy and procedures.

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.

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.

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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 C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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