

Mount Vernon City School District

Purchasing and Claims Auditing

FEBRUARY 2018



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

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Report Highlights

Mount Vernon City School District

Audit Objective

Determine whether the District purchased goods and services in accordance with District policy and statutory requirements.

Determine whether claims were adequately supported and properly audited before payment.

Key Findings

- District officials did not seek competition or properly administer or award competitive bids for purchases totaling \$13 million.
- The District did not seek competition for eight professional services providers paid approximately \$1.4 million.
- An unauthorized employee was allowed to override the approval process for 31 purchases totaling \$913,856.
- The District paid 49 claims totaling \$1.0 million without proper documentation.
- Claims totaling \$2.4 million were paid without the claims auditor's authorization.

Key Recommendations

- Provide guidance on soliciting competition for goods and services, including the appropriate use of written requests for proposals, written quotes and verbal quotes.
- Monitor the activity within the computerized software to prevent unauthorized approvals.
- Ensure that all claims are properly supported by adequate documentation prior to payment approval.

Background

The Mount Vernon City School District (District) is located in the City of Mount Vernon in Westchester County. The Board of Education (Board) is responsible for managing the District's operations. The Superintendent of Schools is responsible for the District's day-to-day management and for the development and administration of the budget. The purchasing agent is responsible for ensuring all goods and services are procured in the most prudent and economical way.

Quick Facts

Employees	1,955
2015-16 Enrollment	8,096
2017-18 Budgeted Appropriation	\$246,169,123

Audit Period

July 1, 2015 – April 3, 2017

Purchasing

How Should a School District Procure Goods and Services?

New York State General Municipal Law (GML) requires goods and services to be procured in a manner to ensure the prudent and economical use of public funds, in the best interest of residents, to facilitate the acquisition of goods and services of maximum quality at the lowest possible cost or best value basis. GML generally requires school districts to solicit competitive bids for purchase contracts that equal or aggregate¹ to more than \$20,000, public works contracts that equal or aggregate to more than \$35,000 and all transportation services.

Districts must adopt their own policies and procedures for goods and services not required by GML to be competitively bid. Professional services can involve significant dollar expenditures, and school districts generally include in their procurement policies and procedures a request for proposal (RFP) or quotation process to ensure that these procurements are made on the most favorable terms and conditions.

The District's Purchasing Policy is Inadequate

The District's adopted purchasing policy requires employees and officials to competitively bid purchases based on established GML thresholds. However, the District's policy does not address purchases that aggregate to competitive bidding thresholds or emergency purchases. Further, the policy does not address the acquisition of professional services or purchases that fall below the competitive bidding thresholds. The policy also does not outline the types of documentation to maintain to support the reasoning for awarding purchases. Without such policies, employees did not have clear guidelines regarding when and how to procure goods and services. As a result, employees did not properly bid required contracts or solicit competition for professional services. Finally, employees did not retain adequate documentation to support awarded contracts.

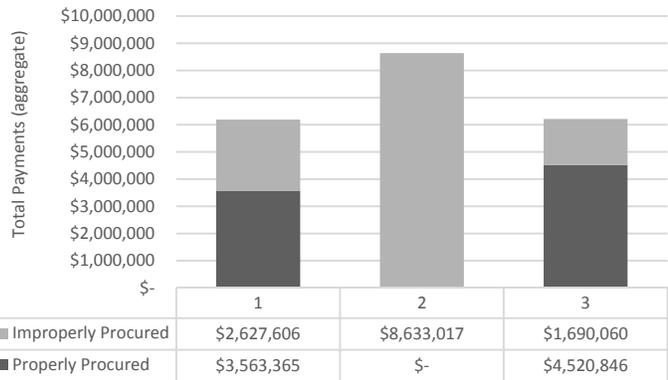
The District Did Not Properly Bid Required Contracts

We reviewed purchases totaling \$21 million and found the District did not adhere to GML or its own purchasing policies for purchases totaling \$13 million (Figure 1). The District made purchases exceeding the bidding thresholds without using a competitive bidding process. Further, District officials did not administer existing competitive bids in accordance with GML or District policy. We found bids that were not properly advertised, lacked clearly written bid specifications and were not awarded to the lowest responsible bidder.

¹ Total payments within a 12-month period

FIGURE 1

Public Work, Transportation Services and Purchase Contracts



Transportation Services – During the 2015-16 school year, the District paid more than \$8.6 million in total for five separate transportation services.² The District awarded its transportation contracts through competitive bids dating back to 2006. District officials were unable to locate the bid documentation relating to the contracts awarded for four of the five transportation services. The purchasing agent and transportation supervisor told us the documentation was either misplaced or in storage.

We were able to review documentation associated with one transportation service,³ dated March 2011, with contracts awarded to four vendors, based on the total cost per vehicle per month. We identified the following concerns:

- Bid specifications: The District sought pricing based on “per vehicle/per month,” regardless of the number of students needing service.
- Evaluation Criteria: The District disqualified four bid responses due to incomplete documentation. However, we found those missing documents included as part of the bid file. In each instance, the disqualified vendors were also the lowest bidders.
- Bid Documentation: The District awarded parts of the contract to four vendors. The original bid submissions were missing and not kept as part of the bid file for two of these vendors. The District had to contact the vendors to obtain copies, upon our request.

2 Four transportation services were for all students (disabled and non-disabled) residing in the City of Mount Vernon for: 1) 2007-08 school year; 2) 2009-2012 school years, including summers of 2009, 2010 and 2011; 3) 2010-2013 school years, including summers of 2010, 2011 and 2012; 4) years not specified. One transportation service was for out-of-District transportation for special needs schools and programs (years not specified).

3 For all students (disabled and non-disabled) residing in the City of Mount Vernon (years not specified).

-
- Reporting Requirements: We found differences between the bid documents and those filed with the New York State Department of Education (SED). For example, a vendor was awarded a route based on the cost per student, whereas the District reported the route was based on a cost per vehicle. In another instance, the District did not notify SED regarding the reassignment of a contract that occurred in 2012 until January 2017.

The transportation supervisor told us that the District has not rebid transportation services in over 10 years. Instead, the District has chosen to continue extending existing contracts. Without periodic competition, the District does not have assurance it is obtaining the right services at the best prices.

Public Works and Purchase Contracts – In addition to the transportation contracts, we reviewed 27 vendors’ contracts for various public works and purchases that met competitive bidding thresholds. These vendors received \$12.4 million in payments during our audit period. We found the District did not properly bid nine vendors’ contracts with payments totaling \$4.3 million. Specifically,

- \$1.7 million was paid to five vendors for repairs and maintenance services that were not publicly bid; instead, the District improperly extended prior contractual agreements. For example, in July 2015, the Board extended a HVAC maintenance and repair services contract awarded in December 2014 for the 2015-16 school year, with a cost not to exceed \$100,000. However, we found that the District paid \$713,102.
- \$1.6 million was paid to the New York State Power Authority for electricity to which District officials were unable to provide Board approval, a contractual agreement or evidence of cost-benefit savings.
- \$836,671 was paid to a vendor for “general construction work” to which the District “piggybacked” onto a bid from another school district that did not conform to statutory requirements.
- \$108,350 was paid to a vendor for masonry and concrete work that was not publicly bid.
- \$51,394 was paid for computer equipment against an expired State contract.

Because District officials did not have evidence that they satisfied the bidding requirements for transportation services, public works and purchase contracts, they do not have adequate assurance those goods and services were procured in a manner to ensure the most prudent and economical use of public money at the lowest possible cost to District residents.

The District Did Not Seek Competition for Professional Services

We reviewed the District's procurement of services from 14 professional service providers paid \$3.3 million during the audit period and found the District properly sought competition for six providers. However, the District did not properly seek competition for the remaining eight professional services providers paid approximately \$1.4 million (Figure 2). Some services were provided by multiple vendors.

District officials cannot assure District residents that they are procuring the most economically beneficial and qualified service providers and cannot ensure that purchases are free from favoritism when awarding professional service contracts without the benefit of competition.

Figure 2: Professional Services Without Competition

Professional Service	Expenditure
IT Consulting	\$951,076
Special Education Services	\$346,372
Pre-K Program	\$100,425
Total	\$1,397,873

How Can the District Ensure Purchases Are Appropriate?

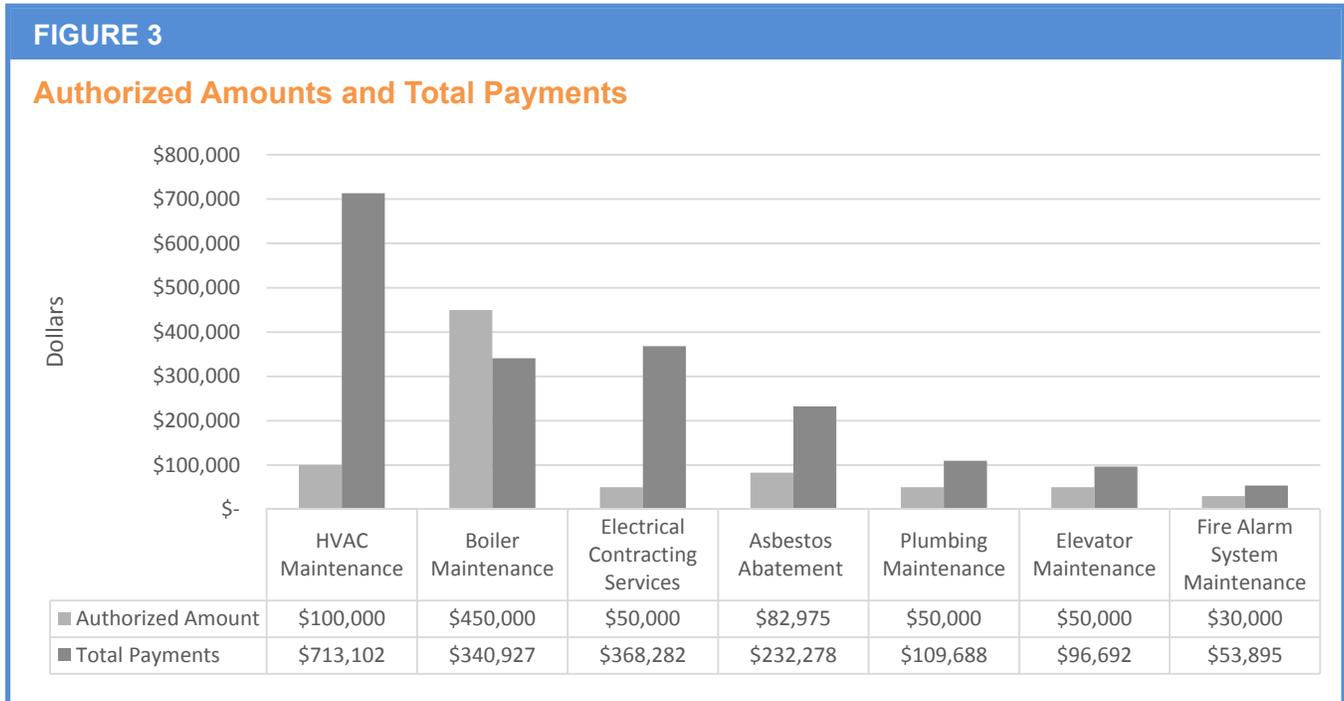
It is important for District officials to monitor purchases to ensure they are for appropriate purposes and amounts. A requisition or purchase order (PO) system helps ensure that purchases of goods and services are properly authorized and preapproved and that adequate funds are available before purchases are made. The individual requesting a purchase submits a purchase requisition to the purchasing agent, who must verify that funds are available before a PO is sent to the vendor for goods or services. The purchase requisition provides preapproval accountability and assurance that the requested items are needed. The PO documents an authorized placement of an order, is a cross-reference to the vendor's invoice and is the source document for District claims (vendor bills) entered into the accounting system. The District requires that all purchase requisitions and POs be approved electronically through the accounting software.

Open purchase orders (OPOs) are used for the purchase of goods or services that are needed on a repetitive basis or for priced contractual purchases. The District frequently uses OPOs. It is especially important for District officials to verify that sufficient funds are available for this type of purchase.

The District Paid Over \$1 Million More Than Authorized Amounts.

We selected seven OPOs totaling \$812,975 and found they were overspent by \$1,101,888. For example, the District overspent \$613,102 for HVAC Maintenance, \$318,282 on electrical contracting services and \$149,303 for asbestos abatement

(Figure 3). This occurred because District officials did not verify whether the OPOs had sufficient funds available before approving them.



Because District officials did not verify that sufficient funds were available for the OPOs, the purchasing agent was unaware that excess purchases had been made, which reduced the District’s ability to effectively control spending. As a result, there is an increased risk that District staff could make inappropriate purchases without going through the purchasing system, and the District could pay more than necessary for goods and services.

Purchases Were Not Properly Approved

The District uses an electronic purchase approval process. The Buildings and Grounds Department requires two levels of electronic approval to convert a requisition into a purchase order. The Buildings and Grounds Director is the first level of review, and the Assistant Superintendent of Business is the second level. The Assistant Superintendent of Business is solely responsible for approving purchases on the Superintendent’s behalf.

To determine whether purchases were both requested and approved in accordance with District policy, we reviewed 61 purchases totaling \$1,038,800 associated with the Buildings and Grounds Department (\$903,401) and those made on the Superintendent’s behalf (\$135,399). We found that 31 purchases

totaling \$913,856 were approved by the capital projects clerk, an unauthorized employee (Figure 4). We also found nine purchases totaling \$569,042 were requested and approved by the same individual (capital projects clerk).

This occurred because employees were improperly assigned access rights to the financial system that were above and beyond their job duties. As a result, the capital projects clerk was able to initiate purchases and override the electronic approval process.

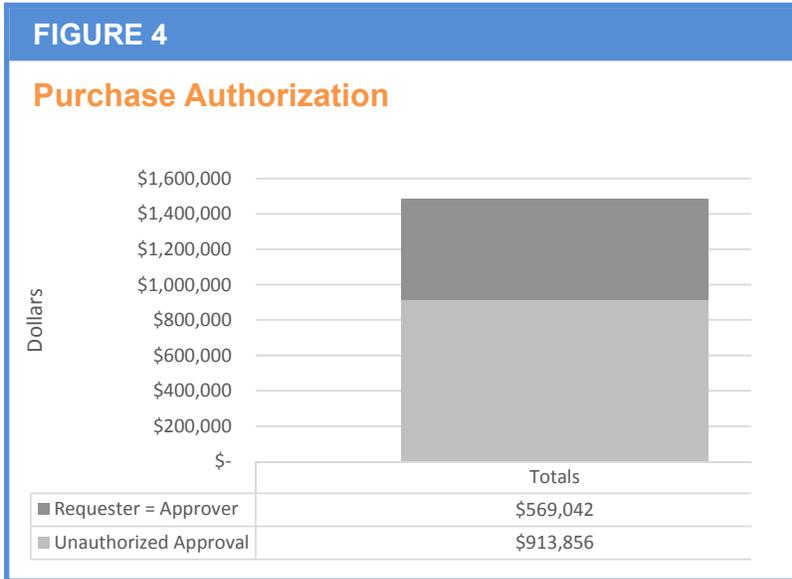
Buildings and Grounds Department – All 28 Buildings and Grounds purchases reviewed totaling \$903,401 lacked required approvals. Such purchases included \$400,000 to a utility provider, \$79,200 to a security system provider and \$5,000 to a restoration contractor.

Superintendent – Three purchases reviewed totaling \$10,455 for the Superintendent lacked required approvals. For example, the District paid \$9,501 to an event planning company without obtaining the required approvals.

These electronic approvals were overridden by the capital projects clerk on behalf of both the Buildings and Grounds Director and the Assistant Superintendent of Business.

The capital projects clerk explained that she was often instructed to override the approval process to expedite purchases. She also told us that sometimes vendors would come to the District’s central office with an invoice demanding payment for services they were instructed to complete by the Buildings and Grounds Director, Assistant Superintendent of Business or the Board President. However, the vendors lacked an approved PO.

Purchase approvals help ensure that each purchase is necessary for District operations and that cost considerations have been evaluated. Although the purchases we reviewed appeared to be for appropriate District purposes, allowing unauthorized employees to request and/or approve purchases on behalf of others compromises the District’s ability to ensure funds are properly safeguarded.



How Should Purchasing Data Be Protected?

To protect the District's purchasing data, it is important that adequate safeguards are in place for the computerized accounting system. There should be written procedures in place for granting, changing and terminating access rights to accounting software applications. These procedures should establish who has the authority to grant or change access (e.g., department manager approval) and allow users to access only what is necessary to complete their job duties. Access rights should be updated as necessary; inactive, retired or terminated accounts should be disabled or removed in a timely manner. The vendor master file is the repository of a considerable amount of information about a supplier, which is used to pay the supplier and to issue POs. Therefore, it is important that this file is accurate and up to date to ensure that all District purchases are appropriate and made from approved vendors.

The District Allowed Improper Access to Its Accounting Software

Access to the District's computerized accounting system is not properly controlled or periodically updated. As of May 2017, the District had a total of 219 employees with access to the District's accounting software. Of those, 26 were inactive due to termination, retirement, etc. However, their access rights to the accounting system were not removed in a timely manner. On average, it took the District nearly four years before removing users. In one instance, 22 years elapsed before the District revoked access rights. The Information Technology Director told us that his department is not informed when employees are terminated or leave the District.

We also found 21 questionable user accounts with access to the District's accounting software. For example, there was an active user account entitled "CUSTOMERFILE." Staff explained that they used this account to add new customer and vendor files quickly.

The District also provided access to an external consultant hired to provide accounting services for various capital project related work. However, this individual also worked for a District vendor providing engineering services for the same projects. Access rights assigned to this individual could create a conflict of interest and also results in a lack of proper segregation of duties. For example, this individual was required to review payment requests and provide recommendations for approval for all capital project invoices, including those associated with his current employer.

Because officials have not implemented appropriate access controls and did not implement procedures to delete inactive employees from the accounting system on a timely basis, the District's computerized data is at an increased risk of loss

or misuse due to unauthorized access. This increases the risk that inappropriate purchases could be made without detection.

Vendor Files Were Inaccurate

We performed a detailed analysis of vendor data in the District's accounting software and found its master vendor file was not accurate, properly maintained or periodically updated. The District had 14,880 active vendor files entered into its accounting software dating back as far as March 1999, and 6,066 contained potential duplicate accounts. Specifically, we identified the following:

- 2,120 files contained duplicate vendor names;
- 2,084 files contained more than one vendor identification number; and
- 1,862 files contained more than one vendor address.

The purchasing agent told us that there was no process or procedure in place to ensure the vendor file was accurate, but she assured us the District was currently transitioning to a new accounting software and the vendor file should be accurate going forward.

Inadequate access controls within the software applications increases the risk that fictitious vendors can be created and go undetected.

What Do We Recommend?

The Board should:

1. Review and update the District's procurement policy to ensure it is in compliance with GML. The policy should include detailed and consistent guidance on competitive bidding, professional services, purchases that fall below the bidding thresholds, aggregate purchases, emergency purchases and documentation of purchases. Such guidance should include the appropriate use of written requests for proposals, written quotes and verbal quotes.
2. Require District officials and employees to adhere to GML and the District's policy requirements when procuring goods and services.
3. Clarify the documentation requirements to be used during the solicitation process, including documentation for the decisions made.
4. Ensure that all claims with an OPO have sufficient funds available before approving the claims for payment.

District officials should:

5. Monitor the activity within the computerized software to prevent unauthorized approvals.
6. Implement appropriate access controls and procedures to delete inactive employees from the accounting system on a timely basis.
7. Ensure access to the master vendor file is restricted to only those employees designated to set up, and maintain, the vendor database.
8. Ensure duplicate vendors are removed from the vendor list.

Claims Auditing

What Is Effective Claims Auditing?

New York State Education Law requires the Board to audit all claims against the District before they are paid or to appoint a claims auditor to assume the Board's powers and duties to examine and approve claims. It is important for the claims auditor to determine whether the claims are properly itemized and supported. The claims auditor also should determine whether the District was correctly billed in accordance with any bids or quotes obtained or with applicable contract terms. The claims auditor, on the Board's behalf, is responsible for ensuring that claims are legitimate and in accordance with District policy prior to authorizing payment. Other than a few exceptions authorized by Education Law, all claims must be audited before payments can be made.

Claims Were Audited Without Documentation

We examined 98 claims comprised of 862 invoices totaling \$1,914,863 to determine whether the claims auditor audited claims before they were paid and claims contained the claims auditor's and other approvals required by the District's procedures.

While all 98 claims were approved for payment by the claims auditor, 49 claims (50 percent) totaling \$1,017,092 did not contain appropriate documentation, such as copies of the contractual agreements, to indicate that the prices charged by the vendors were correct. Therefore, the claims auditor could not determine whether the prices charged matched the contract prices. However, the claims auditor approved these claims for payment, which increased the risk of the District paying more for services than the agreed upon rates (Figure 5).

Figure 5: Unsupported Claims Approved for Payment

Service	Total Claims Approved for Payment	Unsupported Claims	Unsupported Payments	% of Total Claims
Electrical Contracting Services	17	17	\$366,282	100%
Asbestos Abatement Service Contractor	4	4	\$232,278	100%
HVAC Maintenance and Repair Services	27	8	\$199,759	30%
Boiler Maintenance and Repair Services	14	3	\$101,089	21%
Elevator Maintenance and Repair Services	18	9	\$77,935	50%
Fire Alarm System Maintenance and Repair Services	9	8	\$39,749	89%
Plumbing Maintenance and Repair Services	9	0	\$0	0%
Total	98	49	\$1,017,092	50%

The claims auditor told us that District officials did not always provide her with copies of contractual agreements or include them as part of the claim packet. She told us it that she approved the claims because it was difficult for her to speak with District officials because she often audits the claims after hours. The claims auditor told us that having access to the contracts would provide for a more accurate claims audit process.

Without this information, the claims auditor could not perform a thorough review of the claims to ensure that the vendors properly charged the District.

Claims Were Audited After Payments Were Made

We compared the check dates from payments made to the District's vendor check run schedule to determine whether those payments were scheduled or unscheduled. We identified 1,023 unscheduled payments totaling \$41,750,050 and found that 83 of these payments totaling \$2,433,661 were paid prior to the claims auditor's authorization.

The claims auditor told us that these payments were associated with emergencies and required immediate payment. However, many of the payments were associated with vendors that were routinely paid, and District officials did not provide any documentation to justify the emergency.

Claims paid without being audited, or prior to the claims auditor's audit and approval, is contrary to the law and weakens the District's system of internal controls over the claims process. When claims are audited after payment is made, District officials cannot detect and prevent overpayments or improper payments before they occur.

What Do We Recommend?

The Board should:

9. Ensure that all claims, other than those exceptions allowed by Education Law, are audited and approved by the claims auditor before payment.

The claims auditor should:

10. Compare invoices against applicable quotes, bids and contract information to ensure that the vendors' prices are correct.
11. Ensure that all claims are properly supported by adequate documentation prior to approval for payment.

Appendix A: Response From District Officials

District officials included appendixes as a part of their response. Because District officials' response contained sufficient detail of their intentions, we did not include them in the final report.



Mount Vernon City School District

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Superintendent of Schools

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January 18, 2018

Ms. Tenneh Blamah
Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Ms. Blamah:

The following pages contain the district's response to the completed audit recently submitted by OSC. There are several items that we are requesting consideration for revision.

In its current format, the general public could surmise that fiscal management is grossly inefficient. There are several responses contained herein for your consideration that could have been provided during the exit interview that we were not afforded or additional information which could have better explained the auditors' findings before the report was written and submitted.

See Note 1 Page 26

While this sampling is not intended to be a complete review of the entire business department, it carries considerable weight amidst a community where there is a resurgence in public confidence. It is vital that the report reflects a summary of the commendations, which are warranted given the gravity of the organization. The report is written in very negative language, which will undermine the district's efforts to further build transparency and trust among stakeholders and unravel the last 3 years of deliberate, careful, fiscal stewardship.

In every instance noted on the report, there is a clear explanation and cross reference to parameters provided by the state which we followed. Yet, these sanctioned and approved provisions are written as potential breaches that we respectfully request you reconsider in your final report.

Yours for the sake of all children.

Kenneth R. Hamilton, Ed.D.
Superintendent of Schools

cc: Ken Silver, Assistant Superintendent for Business

(Audit Period July 1, 2015 to April 3, 2017)

12/19/17 Draft Audit Report

pg 3 – Report Highlights

Mt Vernon CSD Audit Response

As an overall framework, it cannot be too strongly stressed that the condition of the Mount Vernon Schools when the current administration arrived was in shambles. In terms of operations, there has been 20 years or more of neglect. This is evidenced by a SED 2015 Building Conditions Report outlining **\$140 Million in critical repairs** and upgrades including vast asbestos problems, hazardous walkways, buckled floors, 100-year old auditorium seats, buildings with major leaks and roof damage, and dangerous stairwells (**See R-Appendix 1 - 2015 Summary BCS Report**). In addition, broken equipment such as non-functioning HVAC equipment created an environment where we could not even control the temperature in the buildings. This neglect put a staggering responsibility on the operations staff because of the immediate and compelling need to fix and upgrade. This push to improve the conditions so the children could learn in a safe and pleasant environment became the foundation for the need to get things done.

Further, there was no permanent purchasing agent during much of the time of this report. Two different people were acting in this capacity and the demands of this work combined with inexperienced staff created some of the inappropriate procedures. The capital projects clerk was also at times the acting purchasing agent wearing multiple hats and with authorization to approve given purchase orders. Each approved order was signed in person by the assistant superintendent. (**See R-Appendix 2a – Approved Purchase Orders**)

We do take exception to some of the summary verbiage, as the initial reading without explanation may lead the reader to reach conclusions different than what was explained further in the report.

We are also disappointed that areas found to be outstanding and without fault were not mentioned in any respect. Given the public nature of this report, it neglects to mention that a Comprehensive Risk Assessment was completed or acknowledgment of the transitional period that was part of the audit. This can point the reader to believe that there is no aspect of the operation that is in accord with the procedures and guidelines as stated by OGS, which is far from reality as this department struggles to do the right thing and at the same time provide for the children.

See Note 2 Page 26

12/19/17 Draft Audit Report
pg 4 – The District’s Purchasing Policy is Inadequate

Mt Vernon CSD Audit Response

Policy development has been lacking due to the immediacy of all the other needs of the business office. While the board has ultimate responsibility for policy, this office is responsible for leading this effort and helping in the development of policy.

We will immediately work with the policy committee to develop policies for the three areas mentioned and present them to the board for approval at the earliest possible date.

The board of education has the NYS School Board’s Association as a policy consulting body to help with updating our policy manual. We are in the midst of policy review and implementation. Our corrective action plan will detail the above.

12/19/17 Draft Audit Report

pg 5 – The District Did Not Properly Bid Required Contracts – Transportation Services

Mt Vernon CSD Audit Response

Transportation for classified children is a very sensitive matter for the children and the parents. We have fully 20% of our children classified and on over 100 buses as described below. Continuity is the major factor this is considered by the committee. It is quite common in the public schools for contracts to be rolled over using the CPI.

The bid documents from 2006 are in storage due to the ongoing renovations in the Education Center. We advised the auditors before they even arrived that this was the case and they would not be available. There is no requirement that bids not be extended yearly and indefinitely. Each year, we examine the routes and contracts to determine if there is a better way. In many cases, contracts are extended with no increase or with a maximum of CPI.

See
Note 3
Page 26

We disagree with the idea that we would be better off with routes per pupil instead of per vehicle costing. There are 56 in district special education vans, 50 out of district special education vans, 700 homeless children being bussed in district, as well as 5 School Choice buses, Pre K busing, and Performing Arts busing. There is a large amount of movement within the special education program. Having per child costing does not allow us to predict and control costs. We believe this entire \$8.6 Million in cost is completely appropriate.

See
Note 4
Page 26

Our corrective action plan will include having all transportation contracts rebid in the spring of 2018. This will satisfy all requirements.

See
Note 5
Page 26

12/19/17 Draft Audit Report

pg 6 – The District Did Not Properly Bid Required Contracts – Public Works and Purchase Contracts

Mt Vernon CSD Audit Response

Item a, Vendor Repair and Maintenance: Please refer to response to Figure 3 on page 8.

Item a: We will comply with OGS Bidding Guidelines

Item b, NY Power Authority: Mount Vernon has been with NYPA for electric service since April 8, 1976. This is a government agency which is an alternative to Con Ed providing electricity and always has the lowest rates. There appears never to have been a resolution adopting NYPA as our electric provider in the 41 years of use. Further, there are 9 months of board minutes missing from 1976. We will ask the board to approve a resolution.

Item b: We will have a board resolution appointing NYPA

Item c: General construction work: Portions of this are not a Piggyback. However, for some of the work completed, there were missing contract documents from the BOCES district.

Item c: Our CAP will show we have put procedures in place to make sure the Piggyback fees are paid to those districts and that contract documents are obtained and attached. Where thresholds are exceeded, we will follow the OGS Bidding Guidelines and ensure that appropriate policies are in place by the board of education.

Item d: Masonry and concrete work: Much of this work was deemed an emergency and we were not able to anticipate that the total of the work would exceed the allowed amount before bidding. This protocol has been approved by SED and is designed specifically for emergency projects to expedite this kind of repairs when buildings are typically 100 years old.

See
Note 6
Page 26

Item d: Our CAP will show we have put in place a procedure that will track the totality of expense of a provider to ensure that we do not exceed the threshold for bidding. We will make a greater effort to evaluate the totality of these projects in advance of the work to ensure we meet OGS guidelines.

Item e: Computer Equipment: This \$51,394 was not required to be bid as it was a sole provider, [REDACTED]

See
Note 7
Page 26

12/19/17 Draft Audit Report
pg 6&7 – The District Did Not Seek Competition for Professional Services

Mt Vernon CSD Audit Response

There is no requirement in the law nor is there any board policy that directs the Professional Services Acquisition. The report states that the “District did not properly seek competition for professional services”. The State Comptroller’s Office document on Page 17 specifically states that professional services is one of the most prominent exceptions to competitive bidding. We do seek a proposal or quotation which is exactly what the comptroller’s guidelines state. We review every professional service and follow the rules in terms of the outside auditor as stated by the comptroller. We believe this entire function is done properly.

The IT Consulting of \$951,076 was in fact awarded based on an RFP. **(See R-Appendix 3a RFP)**. The security firm has proprietary equipment installed which prompted the three (3) year contract. **(See R-Appendix 3b BOE Resolution)**

See
Note 8
Page 26

The Special Education Services were awarded to three (3) vendors that are all specialized for special needs students. As shown in the attached BOE resolutions for each, they were based on “State Education Department tuition rates”. **(See R-Appendix 4a, 4b, 4c BOE Resolutions)**

See
Note 9
Page 27

The Landscape Services of \$22,480 was originally a contract for \$19,530 signed by the superintendent under his authority. In fact, there were four (4) separate companies that submitted competitive proposals for this work. **(See R-Appendix 5 BOE Resolution)**

See
Note 10
Page 27

The Pre-K Program is administered by Mt Vernon CSD that required sufficient classroom space. The location selected was one of the few that met the requirements within the city of Mt Vernon and the State Education Department for Pre-K programs. **(See R-Appendix 6 BOE Resolution)**

See
Note 8
Page 26

In all cases, we knew where available funds were located and prepared those transfers for the next board meeting.

12/19/17 Draft Audit Report

pg 7 & 8 – The District Paid Over \$1 Million More Than Contractual Agreements

Mt Vernon CSD Audit Response

At each reorganization meeting, the board is asked to approve vendors for anticipated purchase orders of a particular amount. Note that all but one of the amounts are in even thousand dollar amounts. The report indicates we overspent by over \$1,000,000. In fact, these were purchase orders and not contracts. There was no contract amount as indicated in the report.

See
Note 11
Page 27

The resolutions stated ("**EXPECTED NOT TO EXCEED**") and not that these were contractual amounts. They are **estimated repair expenses for that year** (which the Repair budget can only absorb a limited amount each year). It is the case that purchase orders may not have been increased in a timely manner but when there is an emergency such as a broken elevator and we cannot move handicapped children, we fix it first and do the paper work later.

See
Note 12
Page 27

The problem we face is that an emergency for us is different than for others. The level of neglect before this administration arrived is staggering. We face daunting problems with facilities and money. Every repair code is overspent. In the old software, in use at the time of the audit, we were able to encumber the money and do the transfers later. Our new system requires funds to be in place before committing to expenses. **Again, none of these were contractual agreements, only place holder purchase orders.**

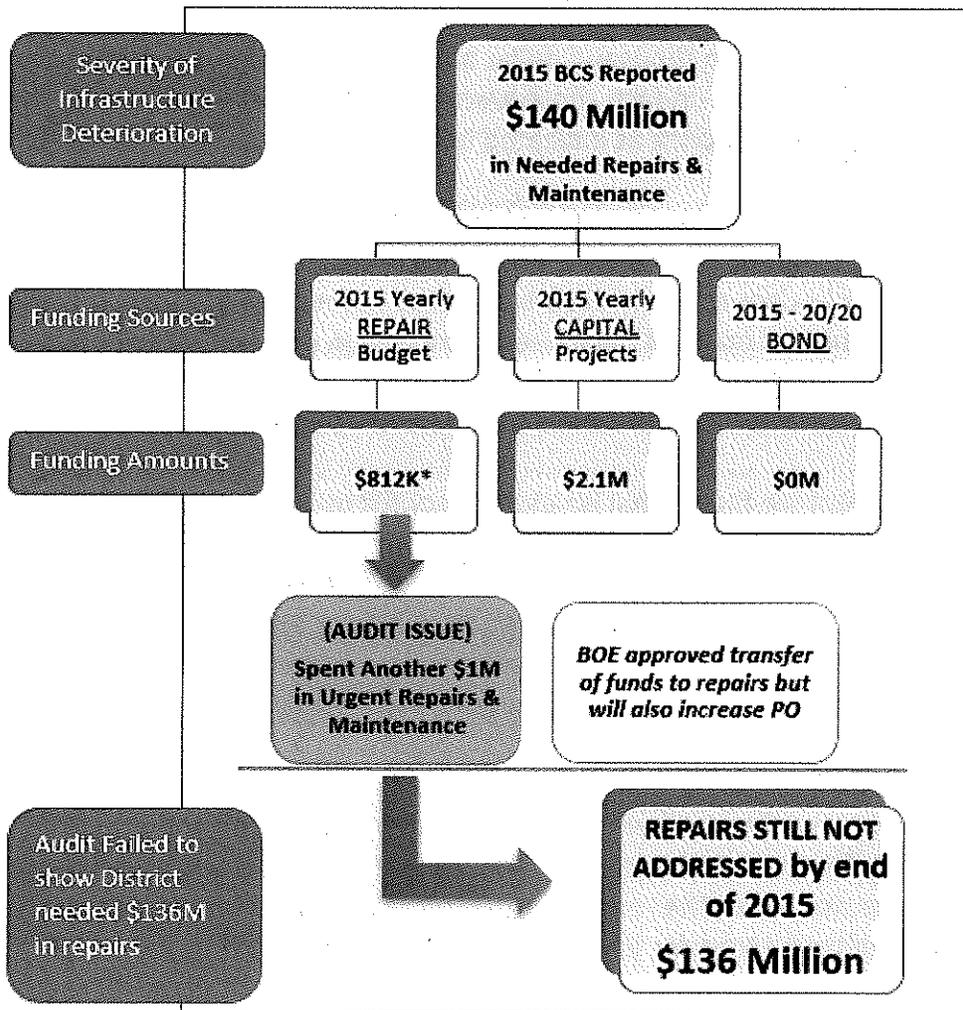
In all cases, we knew where available funds were located and prepared those transfers for the next board meeting. As already noted and implemented, the purchase orders for the respective budget lines will be increased to reflect the board approved transfer amount.

See
Note 13
Page 27

12/19/17 Draft Audit Report

pg 7 & 8 – The District Paid Over \$1 Million More Than Contractual Agreements

Mt Vernon CSD Audit Response – con't



*NOTE: \$812K is sum of 7 repair columns. These were estimates not "Contract Amounts" as the Annual Budget was not mechanism for addressing the needs. District administration appropriate developed the Bond that was approved March 2016.

(See R-Appendix 1 – 2015 Summary BCS Report)

12/19/17 Draft Audit Report
pg 9 – Purchases Were Not Properly Approved

Mt Vernon CSD Audit Response

Purchase Approval:

The capital projects clerk is a part of the authorization process. There is never any expense authorized without the assistant superintendent's specific in writing approval. Every payment is seen by the assistant superintendent and by the facilities director.

Nothing was ever requested by anyone but the assistant superintendent. Nobody else would even know what they were. If clerical help was needed, it was requested, but every purchase was approved. **All 31 purchases (See R-Appendix 2a) & 9 purchases referenced (See R-Appendix 2b) in audit Figure 4 chart can be found in the referenced appendix as verification.**

See Note 15 Page 27

Further, there was no permanent purchasing agent during much of the time period of the audit. The capital projects clerk was acting purchasing agent when directed for a long period of time but not every day, to ensure that purchases were done as well as possible.

Trusted employees are permitted additional access rights as the volume of work requires additional supervised help by a number of people. Nothing has ever been done without appropriate higher level supervision. Each of the 31 instances was done with the knowledge of the assistant superintendent and with specific instructions to complete these tasks.

Superintendent:

The superintendent at that time had authority to sign contracts up to \$15,000. This was a contract within his limit. See Board Resolution 12.8 of May 17, 2016.

Capital Projects Clerk –Vendors demanding payment:

There are times when the assistant superintendent or the facilities director may direct a contractor to make changes on the spot for various projects. This can be an immediate need or an emergency such as when a job is in progress and asbestos is discovered. These types of changes must be dealt with immediately. No contractor ever received a payment because they arrived and demanded payment. Payments still had to be approved and the correct paperwork completed. There was no time when the then board president had authorization or any legal authority to direct any work. The capital projects clerk will no longer be allowed to authorize capital project purchases. This will be detailed in our corrective action plan.

12/19/17 Draft Audit Report

pg 10 – The District Allowed Improper Access to Its Accounting Software

Mt Vernon CSD Audit Response

Purchasing Data:

The district was using a financial software called [REDACTED] which was supported by Broome-Tioga BOCES/South Central Regional Information Center during the audit period from July 2015 through April 2017. After the State audit in 2009, BT/BOCES re-designed the [REDACTED] user access forms with drop down boxes from which menus could be selected in order to establish stricter controls over user access rights. Accordingly, three separate forms were used for Purchasing/Requisitioning, Human Resources/Payroll and General Ledger modules (attached). Since 2011-2012 school year and forward, the district used these pre-printed user forms in order to access [REDACTED]

Whenever a building Principal/Department Supervisor needed to provide [REDACTED] access for a new employee, he/she sent an email request to the District Treasurer indicating what menus in the Purchasing, HR or G/L module the new user required access to. Upon receipt of said email requests, the Treasurer after consultations with the Assistant Superintendent for Business or Purchasing Agent (if required), assigned appropriate menus from the drop down menu box of the user form, signed it and forwarded it to the new user. The user was required to put his/her original signature on page 2 of the user form acknowledging responsibility and the confidentiality of the user rights. He/she then faxed it to BT-BOCES for set up. BOCES always insisted on receiving a signed user application form faxed to their attention in order to proceed with the request. Likewise, when an employee is terminated, the department supervisor sent an email request to the Treasurer to deactivate the terminated person's user rights. Based on an email received from BT-BOCES on or around February 2017, there were only 111 active users in the accounting system as opposed to 219 stated in the above findings.

EXTERNAL CONSULTANT

The external consultant does NOT review any capital project invoices related to their current employer. Every invoice of this nature is reviewed by the assistant superintendent and the facilities director. Access rights were 'view only' to complete necessary reporting to SED.

12/19/17 Draft Audit Report
pg 10 – The District Allowed Improper Access to Its Accounting Software

Mt Vernon CSD Audit Response – con't

Purchasing Data & Access to Accounting Software

Effective July 1, 2017, the district transitioned to the [REDACTED] accounting software. The security control measures established with this new software are superior to our former software [REDACTED]. The Treasurer is the only person who can approve or disapprove user activations and/or deactivations, based on his email to Southern Westchester BOCES, the Security Administrator. The new software works differently as compared to [REDACTED] modules. Each user is added under a defined approval path. In other words, a user assigned to approval path "Grimes School" cannot be a user for approval path "Lincoln School". Accordingly, an employee only has access to the menus that are required for him/her to perform their specific responsibilities. This will be highlighted in our corrective action plan.

12/19/17 Draft Audit Report
pg 11 – Vendor Files Were Inaccurate

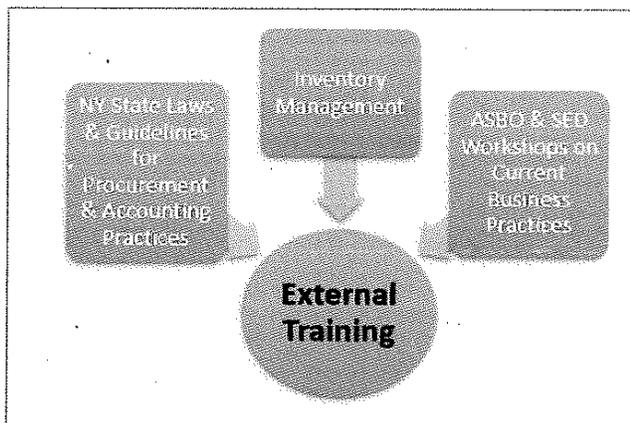
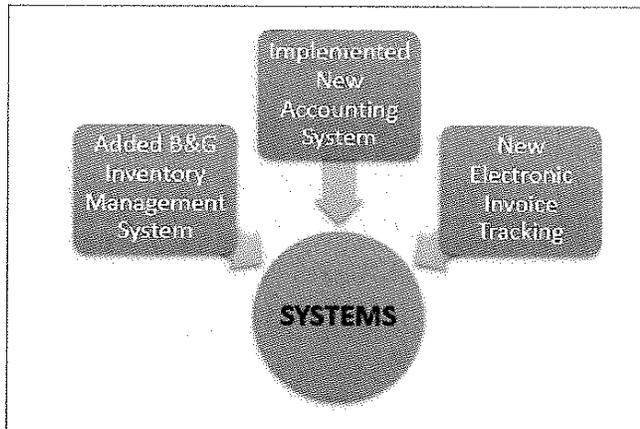
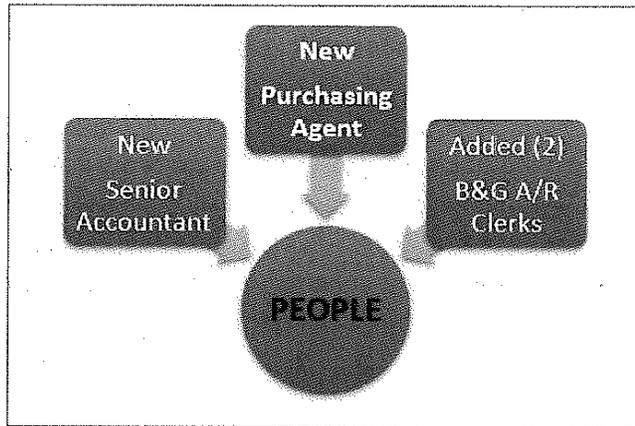
Mt Vernon CSD Audit Response

New software has been installed, the files have been culled and we are satisfied this problem which has been with us for many years has now been resolved, which we will state in our corrective action plan.

12/19/17 Draft Audit Report
pg 11 & 12 – What Do We Recommend

Mt Vernon CSD Audit Response

The District will implement the directed recommendations as noted. As the audit is dated back to 2015 our corrective action plan will highlight the District has implemented numerous corrective measures in the last 12 months that addresses many of these recommendations.



12/19/17 Draft Audit Report
pg 13 & 14 – Claims Were Audited Without Documentation

Mt Vernon CSD Audit Response

Once contractual agreements are determined to be in place for a vendor, we have not required copies of the contract to be attached to every claim. However, every claim is reviewed to make sure that the contractual prices are correct and the signatures that the auditor sees indicates they have been reviewed.

Pricing data will either be attached or written on every claim that involves a contractual price. Where contracts are lengthy they will be made available electronically. The corrective action plan will evaluate best practice given the length of some contracts.

12/19/17 Draft Audit Report
pg 14 & 15 – Claims Were Audited After Payments Were Made

Mt Vernon CSD Audit Response

Previously, this department had been understaffed. The claims auditor is a part time position and that person is present as often as possible. However, the volume of claims and the necessity to get contractors paid has caused us to pay claims ahead of them being audited. However, a thorough review process is conducted internally, in order to confirm that payments are being paid appropriately to vendors to correspond with work conducted and invoices received. In addition, there is a large number of unscheduled payments because of missed deadlines and emergencies where we are asked or required to do a hand drawn check or where the expenditure must be made before the auditor arrives.

In our upcoming corrective action plan, we will be having the internal claims auditor come more frequently and develop a policy for board approval that requires auditor action before payment.

Appendix B: OSC Comments on the District's Response

Note 1

We held an exit conference on January 10, 2018 with District officials to discuss the findings contained in the audit report and to give District officials an opportunity to provide additional information. In addition, throughout audit fieldwork, we discussed the findings we identified with District officials.

Note 2

The risk assessment is a process we use to determine the areas with the highest risk. Based on the results of our risk assessment, we selected the District's purchasing practices and claims auditing process, as those were found to contain the highest risk.

Note 3

Our audit examined whether the District followed proper bidding procedures for its transportation services. Because supporting documentation was not available, we were unable to determine whether the transportation services provided to the District were procured in a manner that ensured the most prudent and economical use of public money.

Note 4

Our audit report stated that the District did not consider the number of students needing services when contracting for transportation services. Instead, it sought pricing based on "per vehicle/per month," regardless of the number of students needing service.

Note 5

We commend District officials for re-bidding the transportation contracts/services.

Note 6

We were not provided with any documentation to support the District's claim that these purchases were emergencies.

Note 7

District officials did not provide us with documentation to support this was a sole source purchase. Further, District officials provided us with an expired State contract that they used to justify payments made to this vendor.

Note 8

The additional documentation provided by the District did not include evidence of proposals received from other vendors.

Note 9

All three vendors awarded special education services were paid prior to the Board resolutions.

Note 10

We amended the final report to remove landscaping services from the finding.

Note 11

We revised our report to state “authorized amounts” instead of “contractual agreements.”

Note 12

The Board resolutions specifically stated that the District would not exceed a specified amount. However, District officials exceeded those specified amounts without Board approval.

Note 13

The District did not provide documentation to support or show that the increases were approved.

Note 14

The audit’s focus was to determine whether the District purchased goods and services in accordance with District policy and statutory requirements, and whether claims were adequately supported and properly audited before payment. The District’s need for repairs was not part of the audit.

Note 15

The District used an electronic purchase approval process. The capital projects clerk overrode these electronic approvals on behalf of both the Buildings and Grounds Director and the Assistant Superintendent of Business.

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, we performed the following audit procedures:

- We examined the District's purchasing policy to determine whether it complied with GML's requirements.
- To determine whether vendors were appropriately procured (RFP, State contract or competitive bid), we selected a judgmental sample of 50 vendors paid from the general fund bank account. We selected our sample based upon total aggregate dollar value (above \$20,000) and the type of goods/ services provided.
- We examined competitive bid documentation for evidence of proper bid notice advertisement, along with a reasonable conclusion that the bid specifications were clear and concise. We also examined bid responses to determine whether the District selected the lowest responsible vendor.
- We exported from the District's computerized accounting software the "user permissions report." We examined permissions assigned to employees within the purchasing department. From there, we were able to compare each employee's job duties to the permissions assigned to determine whether proper segregation existed.
- We exported from District's computerized accounting software the "master vendor file" into an excel file. We analyzed the data by using excel functions to determine whether duplicate names, addresses and vendor identification numbers existed.
- We traced the payments made to vendors from the District's accounting records to the physical claim packets. We examined the documentation to determine whether the invoice quantities and amounts charged agreed with the contract terms and purchase order(s).
- We compared the check dates to the District's vendor check run schedule to determine whether payments to vendors were scheduled or unscheduled. We were then able to follow up with District officials to determine whether the payments made outside of the check run schedule (unscheduled) were properly supported and approved by the claims auditor prior to issuance.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.state.ny.us

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

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