



Ellicottville Central School District Purchasing

Report of Examination

Period Covered:

July 1, 2012 — April 10, 2014

2014M-177



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Ellicottville Central School District, entitled Purchasing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Ellicottville Central School District (District) is located in the Towns of East Otto, Ellicottville, Great Valley, Franklinville, Humphrey and Mansfield in Cattaraugus County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District, with approximately 615 students and 100 employees. The District's budgeted expenditures for the 2013-14 fiscal year were \$10.9 million, which were funded primarily with real property taxes and State aid.

Annually, the Board appoints a purchasing agent to assume the Board's powers and duties with regard to committing District funds to purchase services and items.

Objective

The objective of our audit was to evaluate the District's purchasing practices. Our audit addressed the following related question:

- Did the District purchase goods and services in accordance with District policies and statutory requirements, and of the highest quality and at the lowest possible cost to taxpayers?

Scope and Methodology

We examined the District's purchasing practices for the period July 1, 2012 through April 10, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c)

of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

Purchasing

An effective purchasing process can help the District obtain services, supplies and equipment of the right quality and quantity from the best qualified and lowest-priced source, in compliance with Board policy and legal requirements. This process helps the District expend taxpayer dollars efficiently and guards against favoritism, extravagance and fraud. New York State General Municipal Law (GML) requires the Board to advertise for bids on contracts for public works involving expenditures of more than \$35,000¹ and on purchase contracts involving an expenditure of more than \$20,000.² GML also requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements, such as professional services and items that fall under bidding thresholds. These policies and procedures should indicate when District officials must obtain competition, outline procedures for determining the competitive method that will be used, and describe the documentation and maintenance requirements and responsibilities.

We selected a judgmental sample of 22 vendors³ which were paid approximately \$911,000 during the audit period, to determine if goods or services from these vendors were properly procured in accordance with the District's policies and procedures and applicable statutory requirements. We found that the District did not properly procure goods or services from 16 vendors that were paid approximately \$866,000. We also found that the District could have saved up to \$1,500 by using a State contract for certain purchases.

While the District's purchasing policy does address statutory requirements, it does not state competitive bidding threshold amounts. Also, District officials stated that, for day-to-day guidance on the purchasing process, staff should refer to the Business Office Manual (Manual), which contains key purchasing provisions and guidelines and is used by the Business Office on a routine basis. However, this Manual is kept in the Business Office and not readily available for others in the District, such as staff and department heads who are involved in the purchasing process. In addition, this Manual is more restrictive than statutory requirements for purchases subject to competitive bidding requirements. Further, the purchasing agent was not provided with documentation of competition, rather the

¹ This amount was \$20,000 prior to 2009.

² This amount was \$10,000 prior to 2010.

³ We reviewed one claim voucher from each vendor to ensure they were for legitimate District purposes and noted no significant exceptions.

documents are generally retained by the department head where the purchase of goods and/or services originates.

Professional Service Providers

GML does not require competitive bidding for the procurement of professional services that involve specialized skill, training and expertise, use of professional judgment or discretion or a high degree of creativity. However, GML does require that school districts adopt policies and procedures governing the purchase of goods and services when competitive bidding is not required. In addition, prudent business practices provide that contracts for professional services be awarded after soliciting competition. One way to accomplish this is to request proposals, which is meant to ensure that the District receives the desired service on the most favorable terms or for the best value.

The District's purchasing policy does not address the procedure for obtaining professional services. While the Manual does not specifically address professional services either, District officials stated that they use the Manual's public works guidelines for professional services. The guidelines require three formal written quotes⁴ for public works contracts (and professional services) totaling \$2,001 - \$20,000, and a public advertisement of bids for those in excess of \$20,000.

Of the 22 vendors selected, 11 were paid a total of \$782,103 for professional services. However, we found that District officials did not always obtain or retain the necessary quotes or bids. District officials did not obtain formal written quotes or publicly advertised bids or proposals for seven vendors which were paid a total of \$153,936. These vendors provided services including liability insurance (\$60,845), legal (\$35,977), financial consulting (\$27,436), physician (\$12,500), surveying (\$7,250), accident insurance (\$5,888) and energy management (\$4,040).

District officials, in accordance with the Manual, did publicly advertise for bids for services from two vendors,⁵ who were paid \$622,672. While the District provided us the bid documentation submitted by these two vendors during our fieldwork, the District could not evidence that they retained any of the other bids that were submitted. As a result, District officials could not demonstrate that they properly procured these services in accordance with the Manual. However, at our exit conference, District officials provided the additional bid documentation they located, subsequent to our fieldwork, which

⁴ Formal quotes are obtained in writing directly from the vendor, whereas written quotes are essentially verbal quotes from the vendor that a District employee writes down.

⁵ The capital project architect (\$544,324) and the construction management company (\$78,348)

appears to support the selection of the architect. The District properly procured services from the remaining two vendors, which were paid a total of \$5,495.

Since District officials did not always use, or could not evidence that they always used, competition to secure professional service contracts, the services may not have been obtained for the best value, and there is less assurance that these purchases were the most prudent and economical use of public moneys.

Competitive Bidding

GML requires competitive bidding for purchase contracts over \$20,000 and public works contracts over \$35,000. The District's Board-approved purchasing policy does not state these amounts explicitly, but references the "maximum level allowed by law during the fiscal year," and does not address purchases outside of these thresholds. However, District officials stated that they follow the Manual to address any questions they have about the District's procedures for purchasing. The Manual sets the competitive bidding threshold at \$10,000 for purchase contracts and \$20,000 for public works contracts, which is more restrictive than GML.

Of the 22 vendors selected, five, which were paid a total of \$92,764, were subject to competitive bidding per the District's Manual. However, we found no evidence that competitive bidding occurred for three vendors from whom purchases of unleaded and diesel fuel totaled \$66,421. We found that based on the amount and rate at which the District purchased fuel during our audit period, it could have saved \$1,479 by using the New York State Office of General Services (NYS OGS) contract vendor for these purchases.⁶ District officials stated they did not use the State contract because they thought they were paying a comparable price with these local vendors.

Items Under Bidding Thresholds

GML requires the Board to adopt a written policy to procure goods and services that are not subject to competitive bidding requirements. The District's purchasing policy does not address the purchasing procedures for items that fall under competitive bidding thresholds. However, District officials stated that they follow the Manual which requires written documentation of three verbal quotes from vendors for purchases of \$1,501 - \$4,999, and three formal written quotes⁷ from vendors for purchases of \$5,000 - \$10,000.

⁶ To participate in the NYS OGS contract pricing, the District must submit its purchase requirements, such as gallons of fuel estimated to be purchased, to NYS OGS in the year prior to the contract award.

⁷ Formal quotes are obtained in writing directly from vendors, whereas written quotes are essentially verbal quotes from vendors that a District employee writes down.

Of the 22 vendors we selected, we found that six were paid a total of \$36,226 for purchases of goods or services that fell under the competitive bidding thresholds⁸ established by the Manual. District officials did not obtain the proper quotes for four vendors that were paid \$22,945. Payments totaling \$12,863 were made to two vendors for fencing and cafeteria tables. While the District obtained and provided documentation of verbal quotes for each of these two items, the Manual required three written quotes from the vendors for these purchases. The remaining purchases were for locksmith services (\$5,186) that District officials stated were from their sole provider of keys and locks, so they did not obtain quotes, and electrical upgrades (\$4,896) for which the District did not have any written quotes.

Because the purchasing agent does not retain documents which evidence competition and the Board does not annually review and update, adopt and communicate the District's purchasing policy and purchasing guidelines, the District is at an increased risk that it may not be getting the highest quality of goods and services at the lowest possible cost to District taxpayers.

Recommendations

The Board should:

1. Annually review, and update if needed, its purchasing policy.
2. Periodically review, update if needed, and formally adopt its Business Office Manual.

District officials should:

3. Distribute the District's purchasing policy and Business Office Manual to all District officials and staff involved with the purchasing process.
4. Ensure that the purchasing agent receives, reviews and retains appropriate purchasing documentation, such as quotes, bids and proposals.

⁸ The Manual requires competitive bidding for purchases of supplies and equipment in excess of \$10,000 and public works in excess of \$20,000.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.



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September 9, 2014

Office of the State Comptroller
Attn. Jeff Mazula
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Buffalo, New York 14203-2510

Office of the State Comptroller,

On behalf of the Ellicottville Central School District, we believe the Audit Report covering Purchasing from July 1, 2012 until April 10, 2014 was a fair examination of the District's financial operation. The Board and administration have discussed the recommendations and have implemented a corrective action plan (CAP) that will address the auditor's findings.

As a result of the report the District has revised District Policy # 5410 Non-Instructional/Business Operations to reflect the statutory limits for purchases subject to competitive bidding requirements as consistent with New York State law. The revised policy also allows the District, in its discretion, to award contracts on the basis of "best value" to a responsible bidder.

The District also revised the Business Office Manual Guidelines for Purchasing supplies, equipment and Public Works Projects when competitive bidding is not required by law. Rather than being more restrictive, the revised numbers now meet statutory requirements.

With respect to the comments about the capital project architect and construction management company; as a Professional Service, the district did secure bids, send out Requests for Proposals (RFP), interview and select the companies that met the criteria established for selection by the Board of Education. We have rewritten our Business Office Manual to include specific procedures that address the procurement for obtaining professional services.

See
Note 1
Page 11

Copies of the Business Office Manual have been made available to the Transportation Supervisor, Cafeteria Manager, Technology Director, Senior Maintenance Mechanic, Athletic Director as well as the Elementary and High School Principals. The District Treasurer and Business Administrator will annually review the content of the manual with those employees.

With respect to the purchase of unleaded diesel fuel, the district did contact our provider and effective July 1, 2014 the district will obtain state bid price for all fuel purchases.

With respect to the vendors that provided fencing, cafeteria tables and electrical upgrades for the district; the district, in fact, did get the appropriate number of quotes required in the policy but the person in charge of getting those quotes has since retired and a portion of the paperwork was not maintained. The District has established a new procedure whereby any purchases of goods/services that fall under competitive bidding threshold established in the District Manual will be maintained in the Business Office with the purchase order.

We would like to suggest that the Comptroller's Office consider making comments on previous audits and whether or not the items listed have been addressed. The present approach offers no follow up or comments about past audits. While we understand the findings are based on generally accepted government auditing standards (GAGAS) it would also be helpful to receive positive comments if appropriate.

See
Note 2
Page 11

The Board of Education and administration have reviewed the findings, suggestions and recommendations of the field auditors. We have taken the appropriate steps to address all of the items outlined in this report. We believe the suggestions were fair and that the steps we have made will allow us to strengthen controls, maintain appropriate purchasing documentation and improve accountability.

Sincerely,

Mark J. Ward/
Superintendent

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We amended the audit report to include that, subsequent to our audit fieldwork, at the exit conference, District officials provided proposal documentation that appeared to support the selection of the architect. District officials could not locate this documentation during the audit.

Note 2

As part of our audit survey process, we reviewed the prior audit findings and took them into consideration as we identified what our current audit focus would be. We discussed this review of the prior audit with District officials during the audit.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to evaluate the District's purchasing practices from July 1, 2012 through April 10, 2014. To achieve the objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials and reviewed financial records and reports, policies and Board minutes.
- We reviewed the District's purchasing policy and Business Office Manual to determine if they adequately address the purchase of goods and services.
- We judgmentally selected a sample of 22 vendors which were paid approximately \$911,000 during our audit period. We reviewed bids, quotes and supporting documentation to determine if the purchases were made in compliance with the District's purchasing policy, Business Office Manual and GML, if applicable.
- We reviewed one claim voucher from each of the 22 vendors to determine if a proper claims audit was conducted.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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.

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