



Corning City School District Procurement

Report of Examination

Period Covered:

July 1, 2014 – April 26, 2016

2016M-222



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
PROCUREMENT	4
Professional Services	4
Items Under Bidding Thresholds	5
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2016

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 Corning City School District, entitled Procurement. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and 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 Corning City School District (District) is located in the Towns of Big Flats and Catlin in Chemung County; the Towns of Dix and Orange in Schuyler County; and the City of Corning and the Towns of Bradford, Campbell, Caton, Corning, Erwin, Hornby and Lindley in Steuben County. The District is governed by an elected nine-member Board of Education (Board), which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The School Business Official (SBO) is responsible, along with other Business Office staff, for maintaining the District's financial records and serves as the District's purchasing agent. As purchasing agent, the SBO is responsible for ensuring that goods and services are procured in a competitive manner.

The District operates eight schools with approximately 4,800 students and 990 employees. The District's general fund budgeted appropriations for the 2015-16 fiscal year totaled \$102.5 million and were funded primarily with State aid and real property taxes. The District's purchases for the 2015-16 fiscal year, through the end of March 2016, totaled more than \$7 million.¹

Objective

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

- Does the District use a competitive process to ensure the prudent and economical use of public funds when procuring goods and services?

Scope and Methodology

We examined the District's procurement policies, procedures and records for the period July 1, 2014 through April 26, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

¹ Total does not include health insurance.

**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.

The Board has the responsibility to initiate corrective action. 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, 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.

Procurement

An effective purchasing process can help the District obtain goods and services of the right quality and quantity from the best qualified and lowest-priced sources, in compliance with Board policy and legal requirements. This process helps the District spend public funds efficiently and guards against favoritism, extravagance and fraud.

General Municipal Law (GML) requires the Board to advertise for bids on contracts for public works involving expenditures of more than \$35,000 and on purchase contracts involving expenditures of more than \$20,000. 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 are under the 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 requirements and responsibilities. Competitive methods can include competitive bidding, sending out a request for proposals (RFPs) and gathering written or verbal quotes.

We selected a sample of 33 vendors who were paid approximately \$4.1 million during our audit period and found that District officials generally complied with GML bidding requirements for purchases totaling more than \$3.3 million from 12 vendors² but did not use other competitive methods to procure goods and services from seven vendors who were paid \$420,749. These procurements were for professional services and items that were under the bidding thresholds. Our prior audit, which was released in August 2009, recommended that the District amend the procurement policy to include requirements for awarding professional services after soliciting competition, but the District chose not to do so.

Professional Services

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. Prudent business practices provide that contracts for professional services be awarded after soliciting competition. One way to accomplish this is to send

² We discussed our concerns and observations with selected bids with District officials.

out an RFP, which is meant to ensure the District receives the desired services on the most favorable terms or for the best value.

Our prior audit recommended amending the procurement policy to require professional services contracts to be awarded after soliciting competition. We found that the District has not addressed this recommendation, as the District's current policy does not include procedures for the procurement of professional services. Of the 33 vendors in our sample, six were paid a total of \$662,552 for professional services. However, we found that District officials did not always solicit competition through RFPs or obtain or retain quotes or bids. District officials did not obtain written quotes, publicly advertise for bids or request proposals for services from two vendors who were paid a total of \$352,875. These vendors provided legal (\$266,825) and architectural (\$86,050) services. The District has used these professional service providers since 2003 and 2008, respectively.

District officials stated that they did not seek competition for these services because the current vendors were familiar with the District's unique environmental issues that had impacted past and current capital projects. However, District officials did not document their rationale, there was no evidence that the Board authorized the decision and the matter was not documented in the Board minutes.

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 policy specifies the dollar thresholds at which verbal or written quotes are required to be obtained prior to making purchases for items under bidding thresholds. The procurement policy requires District officials to consider the aggregate amount to be expended in a given fiscal year for purchases of a similar nature, such as custodial supplies, when determining whether quotes should be obtained.

Of the 33 vendors selected, 15 were paid a total of \$189,328 for goods and services that were under the competitive bidding thresholds. District officials did not obtain the required quotes for purchases made from five vendors who were paid \$67,874. The purchases were for custodial and maintenance supplies (\$23,502), auto parts (\$23,021), technology supplies (\$9,323), music supplies (\$6,615) and plumbing supplies (\$5,413). District officials told us that they were aware of the policy requirement to consider aggregate purchases, but when procuring supplies they did not anticipate exceeding the threshold so they did not obtain quotes as required. As such, the District could not demonstrate that the lowest cost was obtained and may have incurred unnecessary costs.

For example, the District purchased various types of auto parts for \$23,021 without seeking competition, but the District could have

purchased comparable parts on New York State bid at reduced costs. For example, if the District had purchased brake rotors using the State bid, the District could have saved between \$43 and \$53, or 50 and 60 percent, per brake rotor.

The Board did not adopt an adequate procurement policy which addresses the competitive procurement of professional services. Further, District officials did not always use competition to secure professional service contracts and did not always obtain the required quotes for items that were under bidding thresholds. As a result, there is an increased risk that goods and services may not have been obtained for the best value to ensure the most prudent and economical use of public funds at the lowest possible cost to the District.

Recommendations

The Board should:

1. Review and revise its procurement policy to include clear language addressing the procurement of professional services and prescribing methods for soliciting competition for such services through the use of RFPs and written or verbal quotes.
2. Require strict adherence to the requirements of its procurement policy. Any deviations from the policy for unique situations or extenuating circumstances should be approved by the Board and documented in the minutes.

District officials should:

3. Solicit competition, though RFPs or another competitive process, for professional service contracts.
4. Ensure that written or verbal quotes are obtained for purchases that are under bidding thresholds, in accordance with District policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Michael K. Ginalski
Superintendent of Schools

September 27, 2016

Jeffrey D. Mazula
Chief Examiner of Local Government
& School Accountability
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Re: Response to Draft Audit Report

Dear Mr. Mazula:

The Corning-Painted Post Area School District has received and reviewed the draft Report of Examination (Audit No. 2016M-222 - Procurement) for the period July 1, 2014 through April 26, 2016. Please accept this correspondence as the official response from the District pursuant to your request dated August 31, 2016.

The goal of the Board of Education, carried out by the District's administration, is to be fiscally responsible while obtaining appropriate goods and services necessary for the operation of the District. The Board and administration will continue to consider ways in which we can improve our procurement methods in light of your recommendations which will include a review of our purchasing policies and procedures with amendments as appropriate. We will also ensure that our audit committee focuses on monitoring compliance with these updated policies. These actions will be detailed in the District's corrective action plan to be submitted after finalization of the audit.

We do take issue with the suggestion that because the District does not use an RFP or quote process to secure professional service providers that there is an increased risk that those services may not have been obtained for the best value to ensure the most prudent and economical use of public funds at the lowest cost to the District. Further, your suggestion that the Board is not knowledgeable about decisions as to these providers is inaccurate. With respect to current service providers as identified in the audit, the Board is comfortable that each has expertise in its area of service with respect to small city school districts. More importantly, each has expertise with respect to the unique issues faced by the Corning-Painted Post School District because of its work with the District over time. There are not things that are not financially quantifiable, but, in the view of the Board and administration, increase the value of services that these providers are able to render.

Some professional service providers are appointed at the District's July reorganizational meeting based upon a recommendation by the Superintendent of Schools. In those instances, the Board, on an annual basis, makes a determination as to whether to continue certain service providers or not. In all instances, whether they are appointed at the annual meeting or as the need arises, the Board is fully aware of the quality of the services received from professional service providers. The



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Mr. Jeffrey D. Mazula
Page 2
Re: Response to Draft Audit Report

Board engages in direct interaction with providers as well as receives feedback from District administration as to performance. The Board is fully aware of the cost of the services through their review of budget materials, which includes detail as to all provider fees, during the annual budget process. Prior to appointment, the service providers all provide fee information to the District's administration for the upcoming school year.

We will clarify, through the District's corrective action plan, methods to more definitively detail the basis for appointment of professional service providers.

We would like to thank the examiners for the time they spent in the District and the professionalism they demonstrated throughout the audit process.

Sincerely,

Michael K. Ginalski
Superintendent of Schools

MKG/krd

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We selected a judgmental sample of 33 vendors (19 from 2014-15 and 14 from 2015-16). Our sample was selected from vendors who were paid more than \$5,000 for each year, excluding payments to other government entities and vendors paid for payroll services, employee benefits, textbooks, utilities and association dues. Our sample included different types of vendors and professional service providers and covered a range of annual costs.
- We reviewed the District's purchasing policies and procedures and Board minutes and interviewed District officials to gain an understanding of the District's purchasing practices.
- We reviewed vendor documentation, claim vouchers and other relevant documentation to determine if goods and services were procured in accordance with District and statutory requirements for competitive bidding, procuring professional services and receiving quotes for items under the bidding threshold.

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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