



# East Rockaway Union Free School District Purchasing

## Report of Examination

Period Covered:

July 1, 2014 — July 31, 2015

2015M-253



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 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 East Rockaway Union Free 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 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 East Rockaway Union Free School District (District) is located in the Town of Hempstead in Nassau County. The District is governed by the Board of Education (Board), which is composed of five 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 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. Annually, the Board appoints the Assistant Superintendent for Finance and Operations to serve as the District's purchasing agent.

The District operates three schools with approximately 1,270 students and 300 employees. Actual expenditures for the 2014-15 fiscal year were \$35.2 million.<sup>1</sup> The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$38 million, which are funded primarily with State aid, sales tax, real property taxes and grants.

## Objective

The objective of our audit was to review the District's practices and procedures used to purchase goods and services that are not subject to competitive bidding. Our audit addressed the following related question:

- Did the Board ensure that the District used competitive methods and adhered to its purchasing policy and procedures when procuring goods and services that were not subject to competitive bidding?

## Scope and Methodology

We examined the District's purchasing practices for the period July 1, 2014 through July 31, 2015.

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.

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<sup>1</sup> This is based on unaudited information.

**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.

# Purchasing

An effective purchasing process helps ensure that the District obtains services, supplies and equipment of the right quality, quantity and price and in compliance with Board policy and legal requirements. It also provides the District with the opportunity to expend taxpayer dollars efficiently while guarding against favoritism, extravagance and fraud. It is important that District officials use competition when available. General Municipal Law (GML) 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 use competition, outline procedures for determining the competitive method that will be used and describe the documentation needed and maintenance requirements and responsibilities.

District officials did not always comply with the District's purchasing policy and procedures when procuring professional services and for other purchases whose cost was under the bidding threshold. They did not use competition when procuring the services of five professional service providers and when making nine purchases. Therefore, the Board does not have adequate assurance that these goods and services were procured in the most economical way and in the best interests of the taxpayers.

## Requests for Proposals

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. Using a request for proposals (RFP) or quote process is an effective way to ensure that the District receives needed services on the most favorable terms or for the best value. Written agreements or contracts between the District and professional service providers provide both parties with a clear understanding of the services expected to be provided and the compensation for those services.

The District's purchasing policy requires District officials to issue an RFP at least once every three years when procuring professional services and to retain all proposals submitted. A proposal must include the structure of the relationship between the professional and the District and the hourly fee or any other associated cost.

During the 2014-15 fiscal year, the District paid \$549,826 to 17 professional service providers. We judgmentally selected 10 professional service providers<sup>2</sup> who provided accounting (two firms), internal auditing, external auditing, claims auditing, architectural, medical, legal and pupil personnel services<sup>3</sup> (two firms) and reviewed all payments made to the providers totaling \$174,222 during the 2014-15 fiscal year. District officials did not comply with the District's purchasing policy because they did not always issue RFPs when obtaining professional services, retain all proposals submitted after choosing a provider or ensure that all professional service providers signed a contract with the District and did not always pay service providers according to their contract terms.

RFP Process – District officials did not issue RFPs when procuring the services of five providers who were paid a total of \$81,093. The District paid \$28,142 for internal auditing services, \$23,100 for claims auditing services, \$17,851 for architectural services, \$6,535 for accounting services and \$5,465 for legal services without using competition. District officials told us that, in most instances, when they did not issue RFPs for these providers, it was because they had worked for the District for many years.

For the remaining five service providers, the District used competition when procuring accounting, external auditing, medical and pupil personnel services and obtained another pupil personnel services provider from a State contract. However, the District's contract for medical services exceeded the procurement policy's three-year limit. The last time the District requested proposals for this professional service was more than six years ago. The District paid these providers a combined total of \$93,129 during the 2014-15 fiscal year.

We also found that District officials did not have any evidence of receiving additional proposals for medical and external auditing services other than the proposal of the two selected providers. District officials provided us with the proposal submitted by each of the two selected providers but did not have any evidence of receiving additional proposals.

Written Agreements – Of the five providers that the District obtained without using an RFP process, two did not have a written agreement with the District: the claims auditor and architect who were paid a total of \$40,951. If any disagreement arises between the claims auditor or

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<sup>2</sup> We selected all nine professional service providers that were paid only from the general fund and the architectural firm that was paid from the capital fund. Refer to Appendix B for further information on our sample selection.

<sup>3</sup> Pupil personnel services include services provided by school counselors, psychologists, social workers, attendance teachers and nurses.



architect and the District regarding level of services expected to be provided or basis of compensation, among other issues, the District has limited legal protection without a written agreement. In addition, the school physician (medical services provider) did not sign his contract with the District. Without the provider's signature to verify the terms of the contract, the physician could dispute any of the contract terms.

Also, according to the District's contract with the accounting firm, the District overpaid the firm by \$6,000 during our audit period. Although the contractual payment for the firm was \$15,000, the District paid the firm \$21,000. The contract stated that, before the District would pay any additional cost above the \$15,000, a new rate would have to be established and agreed upon by both parties. District officials were unable to provide us with any written agreement that established a new rate of payment for the contract or any other written justification for the additional \$6,000 in payments to this provider.<sup>4</sup>

Because District officials did not always use, or could not provide evidence that they used, competition to secure professional service contracts, District officials cannot assure taxpayers that they are procuring the most economically beneficial and qualified service providers and that these procurements were not influenced by favoritism. Also, without written agreements, District officials do not have a means of determining whether rates charged are accurate, and the District has no contractual or legal protection in the event that any of the service providers default on their obligations.

## Competitive Quotes

The District's purchasing policy and procedures outlines dollar thresholds for purchases requiring either verbal or written quotes and the circumstances where proposals or quotes are not required, such as purchases made under a State contract. For purchase contracts ranging from \$100 to \$500, District staff must obtain three verbal quotes, contracts ranging from \$501 to \$1,000 require more than three verbal quotes, and contracts ranging from \$1,001 to \$20,000 require three written quotes. For public works contracts, contracts ranging from \$1,000 to \$5,000 require three verbal quotes, contracts ranging from \$5,001 to \$10,000 require three written quotes, and contracts ranging from \$10,001 to \$35,000 require more than three written quotes. District officials should retain purchase quote documentation with claim vouchers so that the Board can properly review and approve the claims.

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<sup>4</sup> At the exit conference, District officials provided us with an email from the accounting firm proposing the additional cost of \$6,000. However, District officials were unable to provide us with any evidence to show that the Board has authorized the additional cost.



District officials did not enforce the procurement policy's requirement of obtaining and documenting verbal or written quotes before purchasing goods or services whose costs exceed policy thresholds. We reviewed payments totaling \$140,479 made to 25 vendors<sup>5</sup> during the 2014-15 fiscal year and found that the District paid \$37,333 to nine vendors for goods and services without using competition. For example, the District paid \$16,108 to a waste removal company and \$4,179 for tires without first obtaining three written quotes as required.

For nine other vendors who were paid a total of \$46,793, District staff provided us with only one verbal quote from each of these vendors. However, the purchasing procedures required that staff obtain three written quotes. For example, the District obtained sporting goods equipment for \$9,633, window treatments for \$1,292 and floor finishing services for \$2,103 from three vendors without requesting and documenting three written quotes for each purchase, as required by the District's policy.

Furthermore, District officials did not always retain necessary quote documentation with the claim vouchers. For example, although District officials obtained the necessary number of quotes for the purchase of computer software totaling \$3,300, staff did not retain the quotes with the claim. However, District officials were able to provide us with the quotes after we completed our fieldwork.

Without proper adherence to established policies and procedures, District officials cannot be sure they are securing goods and services of the maximum quality, in the most economical manner, in the best interests of the taxpayers and without favoritism, waste or fraud.

## Recommendations

The Board should:

1. Ensure that District officials and personnel comply with the District's purchasing policy and procedures.
2. Ensure that professional service providers sign contract agreements with the District before they begin providing services.

District officials should:

3. Ensure that vendors are paid according to their contract agreements.

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<sup>5</sup> We selected the largest claim generated by 25 randomly selected vendors. Refer to Appendix B for further information on our sample selection.

4. Maintain supporting documentation for all quotes and proposals received, as required by the purchasing policy.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



Setting a course for excellence

# EAST ROCKAWAY SCHOOL DISTRICT

Superintendent of Schools  
Lisa J. Ruiz

Superintendent's Office  
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(516) 887-8300 l x 523 • Fax (516) 887-8694

January 8, 2016

Mr. Ira McCracken  
Chief Examiner  
Division of Local Government and School Accountability  
110 State Street  
Albany, NY 12236

Dear Mr. McCracken:

The East Rockaway Union Free School District is in receipt of a *DRAFT* copy of the audit report titled: "Purchasing, Report of Examination 2015M-253" for the period covered July 1, 2014 to July 31, 2015. The District is in agreement with the recommendations made in the report and has already demonstrated its efforts in implementing a corrective action plan.

The Board of Education and the current District Administration continually strive to implement best practices and procedures to safeguard the financial integrity of the District on behalf of our students and taxpayers. This has been demonstrated in various areas, specifically in the past few years as a new Superintendent and Assistant Superintendent for Finance & Operations have assumed their new roles in the District and their work with current Internal and External Audit team's progresses.

The District has already begun to implement its Corrective Action Plan to address the recommendations made in the report as follows:

- 1) District officials and personnel will comply with the District's purchasing policies and procedures
- 2) District officials will ensure that professional service providers sign agreements with the District prior to beginning to provide services.
- 3) District officials will ensure that vendors are paid according to their contract agreements
- 4) District officials will maintain supporting documentation for all quotes and proposals received

We appreciate the feedback received and the comments made by your audit team in support of our continuing efforts. We are confident the observations made during the audit will assist our District in continued refinement of our procedures.

Sincerely,

Kristin Ochtera  
President

KO:JPR

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees who are involved in the procurement process.
- We reviewed the District’s purchasing policy and procedures that specified the treatment of purchases that are not subject to competitive bidding requirements. This review included an examination of a table titled “Purchasing Exhibit” that explained methods of competition that staff should use for non-bid procurements.
- From the District’s cash disbursement list, we calculated the total payments made to all professional service providers paid during the 2014-15 fiscal year. During the 2014-15 fiscal year, the District paid \$549,826 to 17 professional service providers. We judgmentally selected 10 professional service providers who provided accounting (two firms); internal, external and claims auditing; architectural; medical (school physician); legal (bond counsel); and pupil personnel services (two firms). We selected all nine professional service providers that were paid only from the general fund. We also selected to review the architectural firm, which was paid from the capital fund, because the other nine providers did not include an architectural firm. The seven remaining providers were paid from various funds.
- For our test of quotes, we obtained the cash disbursement list from all funds and selected all 191 vendors who were paid between \$1,000 and \$19,999 for purchase contracts and \$1,000 through \$34,999 for public works contracts. Total payments to these vendors were \$1,045,128 during the 2014-15 fiscal year. We then used a random number generator to select 25 vendors from this list who were paid from the general fund. We then selected to review the claim with the largest dollar amount from each vendor.
- We reviewed 35 claims with payments made to professional service providers (10 claims) and other vendors (25 claims). We requested to review evidence of quotes or proposals for the procurement of these goods and services.
- We reviewed the minutes of the Board’s proceedings for the July re-organization meeting for the 2013-14, 2014-15 and 2015-16 fiscal years to determine whether the Board passed detailed resolutions to authorize services provided by professionals.
- We reviewed written agreements made between professional service providers and the District.

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.

## APPENDIX C

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