



Friendship Central School District Procurement

Report of Examination

Period Covered:

July 1, 2014 – February 9, 2016

2016M-175



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
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B OSC Comment on the District's Response	9
APPENDIX C Audit Methodology and Standards	10
APPENDIX D How to Obtain Additional Copies of the Report	11
APPENDIX E Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Friendship Central 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 Friendship Central School District (District) is located in the Towns of Friendship, Belfast, Cuba and Wirt in Allegany County. The District is governed by an elected five-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 (Superintendent) is the 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 District contracts with the Cattaraugus-Allegany-Erie-Wyoming Board of Cooperative Educational Services (BOCES) for its central business office functions and for the services of a shared¹ Business Administrator who oversees the District's business operations.

The District operates one school with approximately 360 students and 90 employees. The District's general fund budgeted appropriations for the 2015-16 fiscal year were \$9.3 million, which were funded primarily with State aid and real property taxes.

The Business Administrator is appointed by the Board as the purchasing agent and is responsible for overseeing the procurement process. A BOCES employee serves as the Board's appointed claims auditor responsible for reviewing all claims prior to payment. Both play an important role in the purchasing function by ensuring goods and services are procured in accordance with District policies.

Objective

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

- Does the District procure goods and services in accordance with its procurement policy and applicable statutes?

Scope and Methodology

We examined the District's procurement procedures for the period July 1, 2014 through February 9, 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 C 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

¹ The District's Business Administrator and Superintendent are shared with the Belfast Central School District.

population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 agreed with our recommendations and indicated they would be taking appropriate corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

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

District officials are responsible for ensuring District resources are used as economically as possible by procuring goods and services in compliance with General Municipal Law (GML) and District policies. GML requires the Board to adopt written procurement policies and procedures that provide guidance for determining when items must be competitively bid and explain the procedures the District must follow when obtaining goods and services that do not have to be competitively bid.

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 retention requirements for quotes and proposals received. The use of competition provides District residents with assurance that goods and services are procured in the most prudent and economical manner; that goods and services of desired quality are being acquired at the lowest possible prices; and that procurement is not influenced by favoritism, extravagance, fraud or corruption.

Although the Board adopted a procurement policy that required obtaining competition for purchases not subject to bidding requirements, the purchasing agent and claims auditor did not always ensure that purchases were made in compliance with the requirements of this policy or require District officials to properly document compliance when they sought competition. Furthermore, the policy did not establish procedures for procuring professional services.

We selected a sample of 20 vendors² who were paid approximately \$433,000 during the period July 1, 2014 through January 6, 2016. District officials could not demonstrate that they sought competition when procuring professional services from four vendors who were paid approximately \$42,000. District officials also did not comply with the provisions of the procurement policy when purchasing goods from four other vendors who were paid approximately \$30,000. Without a process to monitor procurement, the Board does not have assurance that the District is obtaining the best value for goods and services.

Professional Services – GML does not require competitive bidding for the procurement of professional services that involve specialized

² See Appendix C, Audit Methodology and Standards, for sample selection methodology.

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 out requests for proposals (RFPs), which are meant to ensure that the District receives the desired services on the most favorable terms or for the best value.

The District's procurement policy does not clearly establish procedures for obtaining professional services. However, District officials stated that they generally use the procedures established in the policy for public works³ contracts when procuring professional services. The policy requires three documented verbal quotes for contracts totaling between \$2,001 and \$10,000, formal written quotes from three vendors for contracts totaling between \$10,001 and \$35,000 and competitive bidding for those in excess of \$35,000.

We selected a sample of 10 vendors that were paid \$132,326 for professional services and found that District officials did not always solicit competition through RFPs or retain documentation to demonstrate that they had obtained quotes. District officials could not demonstrate that they had obtained written quotes, publicly advertised or requested proposals for services provided by four vendors who were paid a total of \$42,400. These vendors provided services including energy management (\$13,100), preventive maintenance on the heating, cooling and ventilation system (\$10,000), student accident insurance (\$9,800) and uniform service (\$9,500). District officials solicited competition through the use of RFPs or public advertisement for the services provided by the remaining six vendors.

Goods and Equipment – The Board adopted a written policy for the procurement of goods not subject to competitive bidding requirements and District officials developed supplemental procurement procedures to provide additional guidance to staff when purchasing goods that are not required to be publicly bid. These policies and procedures require three documented verbal quotes for purchases totaling \$1,001 to \$5,000 and formal written quotes from three vendors for purchases totaling \$5,001 to \$20,000. Purchases costing less than \$1,000 require at least two catalog or price sheet comparisons. Additionally, District officials are required to retain sufficient documentation to demonstrate compliance with the policy and supplemental guidelines.

³ Public works contracts are typically items or projects involving labor or both materials and labor.

We selected a sample of 10 vendors that were paid \$300,881 for goods and equipment and found that District officials did not follow their procurement procedures and obtain the proper quotes for purchases totaling \$29,700 from four vendors. This included the purchase of educational magazines and materials (\$19,600), vehicle parts (\$5,400) and custodial supplies (\$4,700). District officials told us they had obtained the required quotes for vehicle parts and custodial supplies prior to purchase but did not retain the required documentation. Without such documentation, District officials cannot demonstrate to us, the purchasing agent or the claims auditor that they had sought competition prior to purchase as required by the policy or that the lowest cost was obtained.

Moreover, as an alternative to obtaining quotes, the District could have purchased comparable vehicle parts and supplies off of New York State contract at reduced costs. For example, if the District had purchased custodial supplies totaling \$1,400 off of State contract, it could have saved approximately \$800.

Because District officials did not always follow the procurement policy and solicit competition when procuring goods and professional services, 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 money or at the lowest possible cost to District residents.

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 including retaining required documentation such as quotes. The Board should require the purchasing agent and claims auditor to regularly monitor compliance with the procurement policy and periodically report to the Board.

District officials should:

3. Solicit competition for professional services through the use of RFPs or quotes and obtain the appropriate number of quotes for purchases as required by the procurement policy.
4. Ensure that appropriate documentation, such as quotes, bids and proposals are retained and available for review.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



46 West Main Street Friendship, NY 14739-9702
Phone (585) 973-3311 • Fax (585) 973-2023

August 17, 2016

Mr. Jeff Mazula
Office of the State Comptroller
Division of Local Government and School Accountability
295 Main Street, Room 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula,

The Friendship Central School District is in receipt of the Comptroller's draft audit report titled: Procurement, Report of Examination 2016M-175 for the period covering July 1, 2014 – February 9, 2016. With one exception noted below, the District is in agreement with the recommendations made in the report, and it is a goal of the District to be fiscally responsible and to maximize the use of public monies at the lowest possible cost to the District taxpayers. We appreciate the valuable insight that the audit process provided and we have started reviewing our procedures to see where we can make improvements for the future.

One comment in the audit was "District officials told us that they had obtained the required quotes for vehicle parts and custodial supplies prior to purchase but did not retain the required documentation." For those two departments, the department head handles all of his own ordering. While the Business Office tried to keep all of the documentation for those orders, the department head kept his own records as well. Due to a change in personnel within the shared business office, some of our records have been misplaced, but I do not believe they were "not retained". After the audit was finished, the department head was able to produce a very thick folder of documentation for orders from this period that were never reviewed by the state auditor. We believe that this documentation is present at the district.

See
Note 1
Page 9

As I have mentioned above, we have begun to address the findings of this report to ensure an improved process in procuring both professional services and procurement of goods. Our formal corrective action plan will be written upon the acceptance of the final audit report.

We would like to extend our gratitude to the field auditors involved in the comprehensive examination of our financial operations and their professionalism in conducting this audit. We appreciate the feedback received and the comments made by the audit team in support of our continuing efforts.

Sincerely,

Judy May
District Superintendent

www.friendship.wnyric.org

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

We made numerous attempts to obtain and review the documentation in question but District officials were unable or unwilling to provide it to us. During the audit, we asked the department head for the documentation, but he did not provide it to us. At the end of our fieldwork, we spoke with the Business Administrator and again requested the documentation but were not provided with it. At our final exit discussion, District officials had another opportunity to provide us with the documentation, but they did not do so. Regardless, there should be a process in place to verify that the required price comparison was completed prior to approving vouchers for payment. Keeping quotes on file in the department head's office does not accomplish this goal.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials regarding procurement policies and procedures and reviewed Board meeting minutes to gain an understanding of the District's procurement process.
- We reviewed the Board-adopted procurement policy and written purchasing procedures and guidelines developed by District officials.
- We reviewed expenditure reports and sorted by vendor to identify purchase type and vendors with contracts or cumulative payments exceeding the quotation thresholds established by Board policy or purchases that, in aggregate, would be subject to competitive guidelines for each of the fiscal years in our audit period.
- We judgmentally selected and reviewed invoices to determine the population of vendors and selected the top 10 highest paid vendors providing professional services and the top 10 highest paid vendors providing goods and equipment.
- We reviewed all invoices and supporting documentation on file including requisitions, purchase orders, vouchers and vendor invoices to ensure payments were properly supported and contained sufficient evidence that goods were received or services were rendered.
- We reviewed all procurement documentation on file and interviewed appropriate officials to determine if goods and services were procured in compliance with the procurement policy.

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 D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Osego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313