



Marcellus Central School District Procurement

Report of Examination

Period Covered:

July 1, 2014 – January 31, 2016

2016M-230



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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 Marcellus 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 Marcellus Central School District (District) is located in the Towns of Camillus, Marcellus, Onondaga, Otisco, Skaneateles and Spafford in Onondaga County. The District is governed by the Board of Education (Board), which is composed of 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 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 School Business Official to serve as the District's purchasing agent.

The District operates three schools with approximately 1,750 students and 365 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$32.3 million, which were funded primarily with real property taxes and State aid.

Objective

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

- Did the District purchase goods and services in accordance with District policies and statutory requirements?

Scope and Methodology

We examined the procurement practices of the District for the period July 1, 2014 through January 31, 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.

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 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

General Municipal Law (GML) generally 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 stipulates that goods and services which are not required by law to be procured pursuant to competitive bidding, such as professional services, must be procured in a manner to assure the prudent and economical use of public money, in the best interest of District residents to facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances, and to guard against favoritism, improvidence, extravagance, fraud and abuse.

The Board adopted a procurement policy in 2012 which provides guidance on the procurement of goods and services subject to competitive bidding along with procurement methods for purchases not required to be competitively bid (items costing less than the bidding thresholds and professional services). The policy also provides for certain exceptions from obtaining bids and quotes, such as for purchases made through a cooperative bidding arrangement; purchases obtained from certain County, federal or State contracts; and emergency situations when time is a crucial factor or purchases when soliciting competition is not possible.

During our audit period, District officials awarded seven professional service contracts totaling almost \$1.1 million without the benefit of competition, as required by the procurement policy. Officials did not comply with the District's policy when procuring goods and services below the competitive bidding threshold for 19 purchases totaling \$119,130 or with GML bidding requirements and District policy for two purchases totaling \$62,153. As a result, 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 its residents.

Professional Services

GML requires that school districts adopt policies and procedures governing the purchase of goods and services when competitive bidding is not required. While GML does not require competitive bidding for the procurement of professional services that involve specialized skill, training and expertise; the use of professional judgment or discretion; or a high degree of creativity, using a request for proposals (RFPs) process or obtaining quotes is an effective way to ensure that the District receives needed services on the most favorable terms or for the best value.

The District's procurement policy requires officials to use an RFP process to procure professional services. In addition, prudent business practices provide that contracts for professional services be awarded after soliciting competition to provide both parties with a clear understanding of the services expected to be provided and the compensation for those services.

We reviewed 13 professional service contracts totaling approximately \$1.3 million to determine whether contracts were awarded after soliciting competition. The District entered into written contracts with all professional service providers detailing the services to be performed and the fees to be charged. However, District officials did not solicit competition for seven professional service contracts totaling almost \$1.1 million, which included two contracts totaling about \$700,000 for architectural services, two contracts totaling approximately \$336,600 for insurance, two contracts totaling approximately \$21,900 for financial services and one contract totaling approximately \$12,800 for executive search services.

The Board issued RFPs for legal services and the District received proposals from six legal firms. The Board awarded this contract to the firm that proposed the highest annual retainer (\$54,000) plus an hourly rate for other services (\$160 to \$185) and paid the firm \$117,960 during the audit period. We reviewed all six proposals and found that other firms proposed lower legal fees ranging from a proposal with an annual retainer of \$42,000 plus a \$125 to \$220 hourly rate for other services to a proposal with no retainer with a \$75 to \$195 hourly rate. District officials awarded this contract to the firm with the highest retainer but did not document their reasons for selecting this firm.

Because the Board and District officials did not always seek competition for professional services or document their decision making process for awarding contracts, there is an increased risk that these services were not procured in the most economical way without favoritism and in the best interest of District residents.

Quotes

The District's procurement policy requires that three written quotes be obtained for purchases of goods costing between \$2,500 and \$19,999 and services costing between \$2,500 and \$34,999. The policy also allows the District to participate in cooperative purchasing arrangements with other governmental entities, such as a Board of Cooperative Educational Services (BOCES), in lieu of obtaining quotes, or to make purchases through contracts awarded by the County, federal government or New York State Office of General Services (OGS). Other exceptions from obtaining the required quotes are for emergency situations and for purchases from sole source vendors when seeking competition is not possible. The policy also

requires all written quotes be submitted and retained with the purchase requisition.

We reviewed 21 purchases totaling \$129,102 to determine if District officials complied with the District's policy. We found officials obtained quotes for sporting goods costing \$5,902. They also purchased computers costing \$4,070 from an OGS contract. However, officials did not comply with District's policy for the following 19 purchases totaling \$119,130:

- District officials made 15 purchases totaling \$98,837 without obtaining three quotes as required. For 14 purchases totaling \$94,437, District staff obtained one quote and for the remaining purchase totaling \$4,400, two quotes were obtained.

Figure 1: Quotes Obtained		
Description	Cost	Number of Quotes Obtained
Asphalt Crack Filling, Seal Coating and Line Painting	\$24,000	1
Gym Floor Refinishing	\$12,912	1
Installation of Drains	\$8,750	1
Playground Equipment	\$5,788	1
HVAC Service Contract	\$5,500	1
Temperature Control Service Contract	\$5,315	1
Repairs to Bus Lifts	\$5,259	1
Miscellaneous Bus Parts	\$4,904	1
Presentation Projector	\$4,680	1
Repairs to Storm Drains	\$4,400	2
Printing of Project Share Books	\$4,142	1
Repairs to Atrium Roof	\$3,912	1
Install Bus Wash Pump	\$3,500	1
Musical Instruments	\$2,925	1
55 Gallons of Glycol	\$2,850	1
Total	\$98,837	

- Documentation for two purchases totaling \$13,715 (a used tuba costing \$3,000 and a wrestling mat costing \$10,715) indicated that the purchases were from sole source vendors, an exception to the policy's requirements. However, District officials were unable to provide documentation to support their determination. We found these items were available from more than one vendor making the sole source exception inapplicable because District officials could have solicited competition for these purchases.
- In March 2015, District officials purchased tires totaling \$3,688 and indicated that they were procured from an OGS contract. However, we found that this contract had expired in

October 2014 and officials should have obtained the required quotes.

- District officials purchased antifreeze totaling \$2,890 and indicated that this was an emergency purchase because time was a critical factor and, in accordance with policy exceptions, obtaining quotes was not required. Officials were unable to provide documentation to support their determination.

Additionally, District officials did not retain the necessary quote documentation with the purchase requisitions as required by the policy. For example, officials obtained the necessary number of quotes for the purchase of athletic supplies costing \$5,902, but District staff did not retain these quotes with the requisitions. District officials were able to provide us with the documentation for these quotes.

Competitive Bidding

After publicly advertising for sealed bids, contracts should be awarded to the lowest responsible bidder. According to GML and the policy, District staff do not need to publicly advertise for bids when procuring goods and services from contracts awarded by the County, federal government, BOCES or OGS or for emergency purchases. Effective use of competition helps ensure that the District is getting the best quality at the lowest possible price and assures residents that public money is being spent in a prudent and economical manner.

We reviewed four purchases totaling \$152,463 for compliance with competitive bidding requirements. District officials did not comply with competitive bidding requirements for two purchases totaling \$62,153, which included infield mix for a softball field totaling \$21,850 and school lockers totaling \$40,303. For the remaining two purchases, District officials appropriately used statutory exceptions from competitive bidding. These two purchases included emergency remediation services due to flooding totaling \$48,673 and a vehicle totaling \$41,637 that was purchased from an OGS contract.

Several District officials told us they were unfamiliar with the District's procurement policy. When officials fail to adhere to established policies and procedures they cannot be sure goods and services of the maximum quality are obtained in the most economical manner in the best interests of District residents without favoritism, waste or fraud.

Recommendations

The Board should:

1. Solicit competition for the procurement of professional services and document its decision making process.

2. Ensure that required quotes are obtained and submitted to the purchasing agent with requisitions and retained with the purchasing records.
3. Comply with GML and the District's procurement policy for purchases above the competitive bidding thresholds.

District officials should:

4. Obtain and retain documentation supporting the decision making process for all purchases made as exceptions to the policy (i.e., sole source vendors; cooperative purchasing arrangements; federal, County or OGS contracts; and emergencies).
5. Distribute the District's policy to all District officials and staff involved with the purchasing process.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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August 30, 2016

Ms. Ann Singer, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Ms. Singer:

The Marcellus Central School District acknowledges receipt of a draft copy of the audit report entitled "Procurement, Report of Examination 2016M-230. The District is in agreement with the recommendations made in the report and is in the process of amending policies and procedures to strengthen purchasing procedures of the District. It is our intent to be fiscally responsible and ensure the most economical use of district resources.

The district is implementing corrective actions to address recommendations made in the report:

- Solicit competition for procurement of professional services and document the decision making process.
- Ensure that required quotes are obtained and retained with purchasing records.
- Comply with GML and its procurement policy for purchases above the competitive bidding thresholds.
- Obtain and retain documentation supporting the decision making process for all purchases made as exceptions to the purchasing policy.
- Distribute the District's policy to staff involved in the purchasing process.

In closing, we would like to express our appreciation of the efforts of your office and the outcome of the audit process. If you have any questions or require additional information, please feel free to contact me.

Sincerely,

Michelle Brantner
Superintendent of Schools

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 staff who are involved in the procurement process.
- We reviewed the District's procurement policy.
- We judgmentally selected eight professional service providers, based on vendor name and dollar amount, with no expectation we would find more or fewer errors. We reviewed claim packets and other supporting documents to determine if District officials sought competition and entered into written agreements.
- We judgmentally selected 21 purchases below the competitive bidding threshold, based on vendor name and dollar amount, with no expectation we would find more or fewer errors. We reviewed claim packets and other supporting documentation to determine if officials complied with the District's procurement policy.
- We judgmentally selected four purchases that were above competitive bidding thresholds, based on vendor names, with no expectation we would find more or fewer errors. We reviewed claims and other supporting documentation to determine if officials complied with GML and 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 C

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