



Thousand Islands Central School District Purchasing

Report of Examination

Period Covered:

July 1, 2014 – April 30, 2016

2016M-283



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Thousand Islands 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 Thousand Islands Central School District (District) is located in the Towns of Brownville, Cape Vincent, Clayton, Lyme and Orleans in Jefferson County. The District is governed by an elected nine-member Board of Education (Board). The Board 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. Annually, the Board appoints the Superintendent as the District's purchasing agent.

The District operates three schools with approximately 980 students and 175 employees. The District's general fund budgeted appropriations for the 2015-16 fiscal year were approximately \$22 million, which were funded primarily with real property taxes and State aid.

The District is a component district of the Jefferson-Lewis-Hamilton-Herkimer-Oneida Board of Cooperative Educational Services (BOCES), which provides a variety of services to the school districts it serves, including cooperative purchasing of commonly used school items such as supplies, foods, fuel and tires.

Objective

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

- Did District officials use competitive methods when procuring goods and services?

Scope and Methodology

We examined the District's purchasing practices for the period July 1, 2014 through April 30, 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 relevant population size 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 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

Seeking competition in the procurement of goods and services is not just a matter of ensuring compliance with laws and local policy. 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 sources, in compliance with Board policy and legal requirements. This process helps the District use its resources efficiently and helps guard against favoritism, extravagance and fraud.

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 further stipulates that goods and services that are not required by law to be bid, such as professional services and items that fall under bidding thresholds, 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.

GML requires the Board to adopt written policies and procedures specifying when District officials should use competitive methods. 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 could include issuing requests for proposals (RFPs) or obtaining written and verbal quotes. In addition, GML requires the Board to adopt a code of ethics that sets forth standards of conduct including ethical behavior in the procurement process and requirements for officers and employees to disclose outside business interests.

District officials need to improve the purchasing process to ensure that competitive methods are used when procuring goods and services. Although the Board adopted a purchasing policy that indicated it should set dollar limits for obtaining written and verbal quotes for purchases that fall below competitive bidding thresholds, the policy did not establish dollar limits or specify the number or type of quotes to be obtained or identify the required documentation to be maintained.

As a result, we found no indication that District officials solicited competition for 20 purchases totaling approximately \$257,100.

Therefore, there is no assurance that these purchases were made in the most prudent and economical manner. While we did not find any prohibited conflicts of interest, District officials did not follow the Board's policy for soliciting and obtaining disclosures of interests from officers and employees to avoid any potential conflicts.

As part of the District's purchasing process, department staff prepare purchase requisitions, which the Business Manager reviews along with any supporting documentation (e.g., quotes, State contracts and BOCES' bid documentation). The account clerks then enter the requisitions into the financial accounting system. Finally, the Superintendent, as purchasing agent, reviews the requisitions and supporting documentation before approving the purchases.

The Superintendent, Business Manager and account clerks told us that they review requisitions for evidence of quotes. However, they were unsure how many quotes were required or the dollar limit thresholds. In addition, department heads told us that they were unaware of when they were required to obtain quotes.

Because the District's purchasing policy did not specify dollar limits and the types of quotes required (written or verbal), District officials lacked assurance that staff procured goods and services of maximum quality at the lowest possible cost under the circumstances. We reviewed 50 purchases totaling approximately \$1.5 million to determine whether competitive methods were used when making these purchases.

Competitive Bidding – District officials paid five vendors approximately \$3.7 million during our audit period for purchases that were over the GML bidding thresholds. We examined supporting documentation for five purchases (one from each vendor) with the largest dollar amounts (totaling about \$829,000) to determine if the District competitively bid for these purchases. District officials solicited bids for three purchases related to a capital project for electrical, general and heating, ventilation and air conditioning contractors. The remaining two purchases were made pursuant to a State contract (for a bus) and a BOCES bid award (for fuel oil) that did not require competitive bidding.

Professional Service Providers – The District's purchasing policy does not address the procedures to be followed for obtaining professional services. We reviewed five payments totaling approximately \$415,700 made to the five highest paid professional service providers who received about \$1 million during the audit period. District officials sought competition when choosing four service providers but did not do so for an architect who received a \$136,245 payment that was

included in our testing. The architect was paid a total of \$311,225 during the audit period. The Business Manager told us that they have used the services of this architect for about 20 years.

Items Under GML Thresholds – The District’s purchasing policy did not address procedures for purchasing items that fell under the GML competitive bidding thresholds. We examined 40 purchases totaling \$247,757 that cost at least \$2,500 each to determine whether the District took steps to seek competition for these purchases.

Almost 50 percent of the purchases we examined totaling \$120,869 (19 purchases) were made without obtaining more than one quote. These purchases included \$17,286 for football uniforms and football helmet reconditioning, \$16,137 for lacrosse uniforms and equipment, \$14,700 for a lawn mower with attachments, \$7,504 for band uniforms and musical instruments, \$7,028 for a fuel tank monitoring system, \$6,500 for stage lighting rental and \$6,398 for elevator maintenance.

Because District officials did not implement written procedures to ensure that goods and services were acquired through a competitive process, they do not have assurance that the District is receiving the best price for goods and services purchased.

Conflicts of Interest – District officials have an interest in a contract when they receive a direct or indirect monetary or material benefit as a result of a contract, or they are an officer, director or employee, or directly or indirectly own or control any stock of a corporation that has a contract with the District.¹

The District’s code of ethics policy requires District officials to disclose any potential interests in contracts with the District. In addition, the District’s procurement policy outlines a procedure where Board members and District staff who regularly influence purchases are supplied with a vendor list on an annual basis, usually in August, generated from the prior year’s data. The employee or official is required to review the list and complete a form indicating the vendors, if any, with which they have an interest and the reason for it.

The Business Manager provided us with the vendor list for 2013-14 (based on the 2012-13 data) and the associated forms. However, District officials did not generate a vendor list or collect these forms during our audit period. We surveyed District officials involved in the

¹ District officials are also deemed to have an interest in the contracts of their spouse, minor children and dependents (except employment contracts), or a firm, partnership or association of which they are a member or employee.

purchasing process to determine outside employment and business interests and compared that information to District vendor payments.

We did not find that any District officials had prohibited interests in contracts. However, even if District officials had followed the procedures outlined in the procurement policy, a potential conflict of interest might not have been prevented because Board members and staff are asked to disclose relationships pertaining to vendors that already do business with the District. These procedures would not necessarily detect potential conflicts involving new vendors.

Recommendations

District officials should:

1. Revise the purchasing policy to include dollar limit thresholds and address the procurement of professional services and items that fall under the bidding thresholds, including the use of RFPs, the number of written quotes and verbal quotes to be obtained and the required documentation to be maintained. The policy should be distributed to all staff involved in the purchasing process.
2. Evaluate the established procedures regarding disclosure of interests and modify them to require officers and key employees to disclose all outside employment or business interests.

The purchasing agent should:

3. Ensure that District officials and employees use competitive methods when procuring goods and services in accordance with GML and the District's purchasing policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Thousand Islands Central School District

8481 Co. Rt. 9 PO Box 100 Clayton, New York 13624

Tel: 315-686-5594 ext. 1000 Fax: 315-686-5511

Mr. Michael F. Bashaw, Jr.
Superintendent

bashawm@ticsd.org
www.1000islandsschools.org



October 26, 2016

Rebecca Wilcox
Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Dear Ms. Wilcox:

The Thousand Islands Central School District Superintendent and Board of Education take great responsibility and pride in providing for the educational needs of our students while at the same time remaining fiscally responsible to our taxpayers. We also feel that our district takes great care in purchasing goods and services for the district.

In response to the audit of the school district in which you found that items under the GML competitive bidding thresholds were lacking competitive quotes, we agree with your findings and we will work to comply with your recommendations understanding that there will be circumstances in which this will not be possible. We will verify the same in our corrective action plan. As a part of our plan, a purchasing handbook for district supervisors is currently under development.

We are providing this letter to assure you that we appreciate your recommendations and we intend to address changes to our purchasing procedures which will be addressed in our Corrective Action Plan.

Sincerely,

Michael Bashaw, Jr.

Superintendent of Schools

Thousand Islands CSD

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees and reviewed Board minutes and District policies to gain an understanding of the purchasing process.
- We analyzed \$48.2 million in disbursements (excluding salaries and wages) to identify purchases subject to competitive bidding, professional services and those for which, in our judgment, quotes would be desirable to ensure the lowest possible cost was obtained. From each category, we judgmentally selected payments from the highest paid vendors to examine.
- We examined five payments subject to competitive bidding and reviewed bid documents for evidence purchases were properly bid and the lowest responsible bidder was selected. We determined if the purchases were made using a State contract or BOCES bid award. We then determined whether the amounts charged on the invoices agreed with the contracts or bid amounts.
- We examined five payments for professional services for evidence that RFPs were issued or some other form of competition was sought (e.g., State contract, BOCES bid award). We also determined whether the amounts charged on the invoices agreed with the amounts on the proposals.
- We reviewed 40 payments for purchases over \$2,500 for evidence of competition. We determined how the purchases were made: using State contract, BOCES bid award or quotes. If quotes were available, we determined whether the amount charged on an invoice agreed with the quoted amount.
- We obtained representations from Board members and other District officials that disclosed their outside employment and business interests, and those of their spouses, for the audit period. We compared these disclosures to cash disbursement records to determine if the District had financial transactions with any business interests that might constitute a prohibited conflict of interest.

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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