

Hamilton Central School District

Procurement

MARCH 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

Report Highlights	1
Procurement	2
How Should Officials Procure Goods and Services Not Subject to Competitive Bidding?	2
Officials Did Not Always Seek Competition for Professional Services .	3
Required Quotes Were Not Always Obtained	4
What Do We Recommend?	6
Appendix A – Response From District Officials	8
Appendix B – Audit Methodology and Standards	9
Appendix C – Resources and Services.	11

Report Highlights

Hamilton Central School District

Audit Objective

Determine whether Hamilton Central School District (District) officials sought competition for the purchase of goods and services not subject to competitive bidding.

Key Findings

District officials did not always seek competition for the purchase of goods and services not subject to competitive bidding, as required by the District's procurement policy.

Officials did not:

- Seek competition for the services procured from five professional service providers totaling \$658,164.
- Obtain verbal and written quotes for the purchase of goods and services from 14 vendors totaling \$126,907.

Key Recommendations

- Periodically issue requests for proposals (RFPs) to solicit competition when seeking professional services.
- Obtain verbal and written quotes as required by the procurement policy.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The District serves the Village of Hamilton and the Towns of Brookfield, Eaton, Hamilton, Lebanon and Madison, in Madison County.

The District is governed by an elected five-member Board of Education (Board). The Board is responsible for educational and financial affairs.

The Superintendent of Schools (Superintendent), along with other administrative personnel, is responsible for day-to-day operations.

The School Business Official is the Board-appointed purchasing agent, responsible for overseeing the purchasing program and ensuring procurements are made in compliance with established policies and procedures.

Quick Facts

Approximate Purchases Not Subject to Competitive Bidding	\$1.2 million
2020-21 Appropriations	\$13.4 million
Employees	113
Enrollment	565

Audit Period

July 1, 2019 – July 31, 2020

Procurement

How Should Officials Procure Goods and Services Not Subject to Competitive Bidding?

School districts must adopt written policies and procedures for procuring goods and services not subject to competitive bidding requirements. Goods and services not required to be competitively bid, such as professional services that require specialized skill and/or training such as legal service, medical service, auditing service, property appraisal or insurance, must be procured in a manner that ensures the prudent and economical use of public funds in the taxpayers' best interest.

Using a competitive method, such as a request for proposal (RFP) process or verbal or written quotes, helps ensure that quality goods and services are obtained at a reasonable cost and avoids the appearance of favoritism or impropriety.¹ In lieu of seeking competition for these goods and services, a school district is authorized to make purchases using contracts awarded by the New York State Office of General Services (State contracts) or contracts bid by other governments.

Up-to-date written agreements with professional service providers are essential to provide both parties with a clear understanding of the services to be provided and the time frames and basis for compensation.

The District's procurement policy (policy) designates that the purchasing agent is responsible for overseeing the purchasing program in compliance with Board policy and procedures. The policy requires officials to solicit and document quotes within certain dollar thresholds before procuring goods and services and solicit competition through a RFP process before awarding contracts for professional services. It also requires the purchasing agent to maintain a master list of verbal quotes and written solicitations received from vendors and to certify that the quotes required by the policy have been received and attached to the purchase order.

The policy defines any exceptions to seeking competition and sets forth circumstances when, or types of procurements for which the solicitation of alternative proposals or quotes has been determined to not be in the District's best interests. In addition, the policy stipulates that the unique benefits of a good or service available only from a sole source provider should be documented prior to making the purchase.

Using a competitive method... helps ensure that quality goods and services are obtained at a reasonable cost and avoids the appearance of favoritism or impropriety.

¹ Refer to our publication *Seeking Competition in Procurement* available on our website at www.osc.state.ny.us/localgov/pubs/lgmg/seekingcompetition.pdf.

Further, the policy states that when an emergency situation exists, the District will make purchases at the lowest possible costs, seeking competition by informal solicitation of quotes or otherwise, to the extent practicable under the circumstances.

Officials Did Not Always Seek Competition for Professional Services

The District’s policy requires written RFPs for professional and other specialized services. RFPs containing details of the services to be provided should be sent to a representative sample of individuals and firms known to offer the service being procured (e.g., architects, engineers, accountants). The evaluation of responses to an RFP shall consider the price quoted, any special knowledge or expertise of the service provider, the quality of the service, the staffing of the service and suitability for the District’s needs.

The policy acknowledges that the specialized and confidential nature of some professional services make them unsuitable for purchase through the RFP process. However, the policy specifies that the Board shall monitor the District’s use of professional services and periodically issue RFPs to assess the cost effectiveness of the services being used.

We reviewed the procurement of services from all six professional service providers paid a total of \$668,836 during our audit period to determine whether the services were procured using RFPs as required by the policy. We found that District officials did not seek competition through RFPs for the services provided by five professional service providers who were paid a total of \$658,164 (Figure 1).

Figure 1: Professional Services Procured Without Seeking Competition

Service Type	Payments
Architects	\$626,270
Legal (3)	20,131
Financial Consultant	11,763
Total	\$658,164

District officials properly issued RFPs prior to selecting the remaining professional service provider, the District’s certified public accountants. The purchasing agent told us that the District sought competition for audit services because it anticipated a significant increase in fees for its annual audit service.

The Board President and the purchasing agent told us that RFPs were not issued for its architectural, legal, and fiscal advising services because the District feels comfortable and satisfied in its long-standing relationship with providers who are familiar with the District's needs. In addition, they told us the District selected one of the legal firms because of its specialization in laws related to special education and considers these services as confidential. Although the District considers some of its legal services to be unsuitable for procurement through RFPs, the Board did not perform its due diligence and monitor the use of these services and periodically issue RFPs to assess cost effectiveness.

Soliciting these services through RFPs, as required by the policy, can help provide assurance that quality services are obtained under the most favorable terms and conditions possible and without favoritism. Further, using RFPs can increase District officials' awareness of other service providers who could offer similar services at a more favorable cost.

We found that the District maintained current written agreements for each of the six professional service providers we reviewed. We reviewed the highest payment to each of the service providers, totaling \$103,298, and found that the payments were made in accordance with current signed agreements.

Required Quotes Were Not Always Obtained

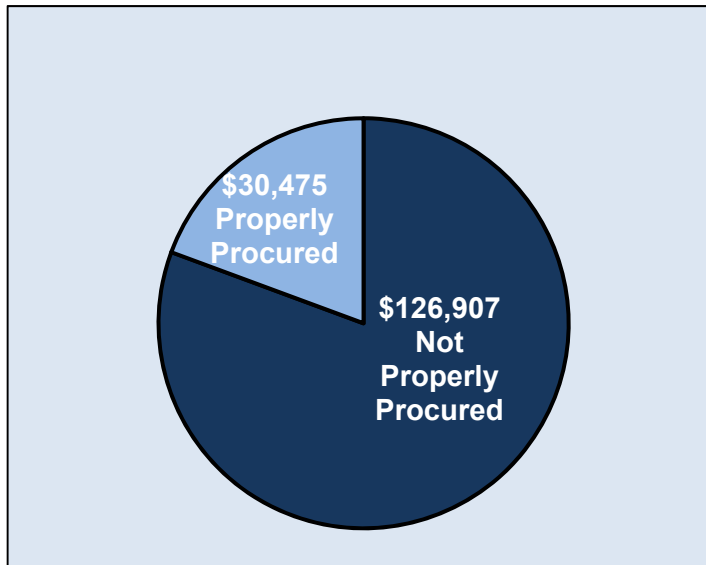
The policy requires officials to obtain three verbal quotes for purchase contracts less than \$1,000 and public works contracts less than \$10,000; three written quotes for purchase contracts between \$1,000 and \$10,000 and three written quotes for purchase contracts between \$10,000 and \$20,000. However, District officials told us they plan to amend the policy to correctly state that the three written quotes for purchase contracts between \$10,000 and \$20,000 requirement applies to public works contracts, rather than purchase contracts. The policy also requires written quotes for insurance.

We reviewed purchases from 21 vendors who were paid a total of \$157,382 during the audit period to determine whether officials obtained verbal or written quotes, as required by the District's policy. We found that quotes were not obtained for purchases from 14 vendors totaling \$126,907 (Figure 2).

....[U]sing RFPs can increase District officials' awareness of other service providers who could offer similar services at a more favorable cost.

FIGURE 2

Sample of Purchases Reviewed



For example:

- Four vendors were paid a combined total of \$82,886 for insurance. The purchasing agent explained that the District's insurance broker performs an annual review of the District's coverage and recommends certain insurance providers to the District based on cost, types of coverage offered, and the providers' ratings. However, the District did not maintain formal documentation of the broker's review to evidence that quotes were obtained.
- One vendor was paid \$17,995 for virtual reality welding equipment, two vendors were paid a total of \$8,025 for computer equipment, another vendor was paid \$3,967 for rock salt and another vendor was paid \$3,640 for wooden door replacements. The purchasing agent explained that he routinely reviews the websites of multiple vendors to ensure best pricing is obtained for a purchase. However, he did not maintain or provide documentation showing the results of his price comparisons and he does not maintain a master list of all verbal quotes and written solicitations or certify that the quotations have been received as required by the District's policy.
- One vendor was paid \$2,850 for the purchase of a wireless audio system. The purchasing agent told that this was a specialized item needed for a student with a disability and was not available from another manufacturer. However, officials did not maintain documentation to show that no competition was available for the materials or that these items were obtained from a sole source, as required.

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- One vendor was paid \$2,500 for the purchase of a replacement motor for a floor scrubbing machine. The purchasing agent told us that quotes were not obtained for this purchase because it was an emergency situation requiring immediate action, and they believed the parts and repairs may have been covered under warranty with the vendor and therefore would not need to be procured. However, officials did not maintain documentation to show that an emergency situation existed or that the District made the purchase at the lowest possible cost to the extent practicable under the circumstances, as required by the policy.

The remaining \$30,475 in purchases we examined adequately showed evidence that District officials used competitive methods to procure the goods and services. Purchases totaling \$25,209 from six vendors were procured from an approved BOCES bid list or BOCES consortium and one purchase for \$5,266 was made from a vendor who held a State contract and therefore, did not require quotes.

Although all the payments we examined were for appropriate purposes, because District officials did not always seek competition or document their decision-making process when competition was not sought for certain purchases, they cannot be sure that goods and services were procured in the most prudent and economical manner in the best interest of taxpayers.

What Do We Recommend?

The Board should:

1. Monitor the use of professional services and periodically issue RFPs to assess the cost effectiveness of the services being used, in accordance with the policy.
2. Update the policy to clarify the dollar thresholds for obtaining written quotes for public works contracts.

District officials should:

3. Use an RFP process to solicit competition when procuring professional services, as required by the policy.
4. Obtain verbal and written quotes as required by the policy for all goods and services below the bidding threshold.
5. Follow policy requirements for obtaining quotes for emergency purchases and documenting the justification for using sole source vendors.

The purchasing agent should:

6. Maintain a master list of verbal quotes and written solicitations received from vendors, and certify that the quotes required by the policy have been received and attached to the purchase order.

Appendix A: Response From District Officials



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February 5, 2021

Rebecca Wilcox, Chief Examiner
Office of the New York State Comptroller
Division of Local Government and School Accountability
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202

Dear Ms. Wilcox:

The Hamilton Central School District is in receipt of the NYS Office of the State Comptroller audit report 2020M-168 with a focus on Procurement. We appreciate the collaborative efforts of the field examiner while completing the audit. The professionalism of the field examiner and flexibility allowed was most helpful throughout the process, especially during the current COVID-19 pandemic.

The district acknowledges the validity of the audit report and is satisfied, given the length and depth of the examination, with the minimal findings and recommendations made. The Board of Education and District Officials have a shared responsibility to safeguard school district assets and will strive for continued transparency and fiscal responsibility while balancing the needs of school programs and community needs.

The Board of Education, with the assistance of District Officials, is in the process of updating and revising many district policies, including those related to procurement. The findings and recommendations will certainly be a key reference while policies are being reviewed. Upon further review and analysis, the District will develop a corrective action plan in response to the findings. This plan will be provided to your office at a later date.

Thank you again for your professionalism, flexibility and valuable feedback.

Sincerely,

William Dowsland
Superintendent of Schools

Michelle Jacobsen
Board of Education President

Aim High!

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and employees and reviewed relevant laws and the District's non-bid procurement policy and procedures to gain an understanding of the procurement process.
- We reviewed electronic cash disbursement data for the audit period and sorted data to select the population of purchases subject to quotes and RFPs.
- To test the procurement of professional services, we reviewed the cash disbursements data to identify vendors that provide professional services. For those vendors we were uncertain about, we spoke with District officials to obtain clarification as to whether the vendors were professional service providers. We identified six professional service providers who were paid collectively \$668,836 during the audit period and reviewed all these purchases to determine whether RFPs were issued to procure these services.
- We reviewed all written agreements between the District and each professional service provider to determine whether the agreements were current. We also reviewed the District's highest payment to each provider during the audit period, and the corresponding invoice, to assess whether the payment was made in accordance with the agreement.
- We used our professional judgment to select 21 vendors who were collectively paid a total of \$157,382 for 23 purchases during the audit period. We reviewed the related claims and supporting documentation to determine whether officials obtained quotes as required by District policy or used other competitive methods (e.g., State contract, BOCES bid list). We selected our sample from the cash disbursement data, excluding purchases that required soliciting competitive bids, purchase contracts that aggregated to more than \$20,000 and public works contracts that aggregated to more than \$35,000 within a year. We also excluded payments made to other school districts, municipalities, debt, payroll, transfers to other District funds, employee reimbursements, payments for maintenance and supplies after March 7, 2020 as a result of the Governor's Executive Order 202 due to COVID, and annual payments to vendors that did not meet the policy's \$1,000 threshold for obtaining written quotes. We identified 83 vendors who were collectively paid \$484,536 during the audit period and selected our sample of 21 vendors with no expectations of more or fewer exceptions.

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- We obtained written representations of outside business interests of Board members, key District officials and employees involved in the procurement process and their spouses. We compared the disclosures to cash disbursement records during the audit period to determine whether the District entered into any financial transactions that could conflict with key decision makers' outside business interests.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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