

Onteora Central School District

Procurement and Claims Auditing

MAY 2022



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

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Report Highlights

Onteora Central School District

Audit Objective

Determine whether Onteora Central School District (District) officials procured goods and services in a cost-effective manner and ensured claims were audited for accuracy and completeness.

Key Findings

District officials did not always procure goods and services in a cost-effective manner or ensure claims were audited for accuracy and completeness.

The District did not:

- Have proper documentation to support that a bus purchase totaling \$121,928 was competitively bid.
- Obtain minimum required quotes for eight purchases totaling \$106,212.

The claims auditor did not:

- Audit claims for accuracy or completeness. As a result, we identified discrepancies with 17 claims totaling \$11,173.

Key Recommendations

- Ensure officials and staff clearly document compliance with competitive bidding statutes and the District's purchasing policies and procedures.
- Obtain verbal and written quotes and ensure that all proper documentation is maintained.
- Provide the claims auditor with access to District's financial application to verify availability of funds and ensure pricing matches vendor agreements.

District officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The District is located in the Towns of Olive, Woodstock, Shandaken, Hurley and Marbletown in Ulster County and the Town of Lexington in Greene County.

The District is governed by a seven-member Board of Education (Board) responsible for the District's financial and educational affairs. The Interim Superintendent of Schools (Superintendent), along with other administrative personnel, is responsible for day-to-day operations.

The Interim Assistant Superintendent of Business (Assistant Superintendent) is the Board-appointed purchasing agent responsible for overseeing the purchasing process and ensuring procurements are made in compliance with established policies and procedures.

The Board delegated its claims auditing powers and duties to a claims auditor.

Quick Facts

Procurements	
Subject to Competitive Process	\$18,093,500
Examined	\$1,964,294
Claims	
2020-21 Total Claims Processed	\$78.4 million
Reviewed	\$458,692

Audit Period

July 1, 2019 – June 30, 2021

Procurement and Claims Auditing

How Should District Officials Procure Goods and Services in a Cost-Effective Manner?

New York State (NYS) General Municipal Law (GML) Section 103 generally requires competitive bidding for purchase contracts exceeding \$20,000 and public works contracts exceeding \$35,000, with certain exceptions. A school district is authorized to make purchases using contracts awarded by the New York State Office of General Services (State contracts) or cooperative bids by other governments, school districts and boards of cooperative educational services (BOCES).

NYS GML Section 104-b states that goods and services not subject to competitive bidding requirements must be procured in a manner that ensures the prudent and economical use of public funds in the taxpayers' best interest. Soliciting proposals by issuing a request for proposal (RFP) or obtaining written or verbal quotes are effective ways to ensure that a district receives the needed goods and services for the best price.

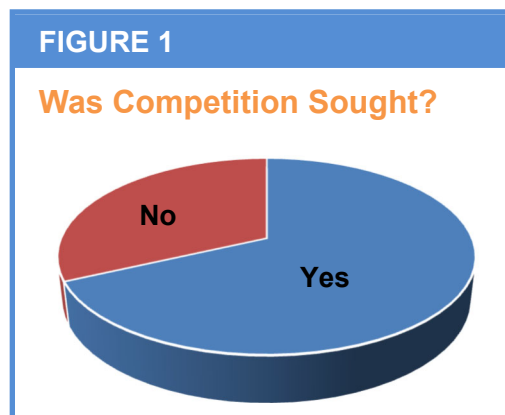
The District's procurement policy outlines the purchasing process for goods not required by law to be bid. Purchases made for materials, equipment and supplies:

- Costing between \$5,000 and \$9,999 and public works projects or contracts costing between \$7,000 and \$14,999 should have documented telephone quotes or catalog prices from at least three vendors.
- Costing between \$10,000 and \$19,999 and public works projects/contracts costing between \$15,000 and \$34,999 should have formal written quotes from at least three vendors.

Additionally, the policy states when retaining professional and/or consulting services, officials should consider the special knowledge or expertise, quality of services and cost of services in their decision making.

Officials Did Not Always Procure Goods and Services in a Cost-Effective Manner

We reviewed 47 purchases made during our audit period totaling \$2 million to determine whether District officials sought competition and documented the procurement method. We found that District officials did not seek competition or document the competitive process for 15 of these purchases (32 percent) totaling \$265,316 (Figure 1).



The District's procurement policy outlines the purchasing process for goods not required by law to be bid.

Competitive Bidding – We reviewed 10 purchases totaling \$1.5 million subject to competitive bidding during our audit period and found that one purchase (10 percent) for a bus totaling \$121,928 did not have documentation to support that it was properly procured. The Assistant Superintendent, acting as the purchasing agent, stated the District used a State contract for the bus purchase. Although we were able to verify the vendor was on the State contract, there was no reference on the District’s documentation that the purchase was made using that contract. In addition, there was no documentation attached to the voucher or maintained by District officials to ensure the pricing received was in accordance with the State contract. We compared the price paid to the State contract price and found the total amount charged was higher than the State contract amount because of add-on items. Officials were not able to provide us with the pricing for the add-on items. Therefore, we were unable to determine if the District was charged the State contract price for the bus.

Quotes – We reviewed 25 purchases made during our audit period totaling \$347,665 to determine whether District officials obtained and documented the minimum required quotes. We found that District officials did not obtain or document the minimum required quotes per District policy for eight purchases (32 percent) totaling \$106,212. For example, the District purchased 12 table tennis boards totaling \$12,372 and District officials could not provide documentation to show that they obtained three written quotes. Due to the lack of documentation, we could not determine if the goods and/or services were obtained at the lowest price.

Professional Services – We reviewed payments made during our audit period to 10 professional service providers totaling \$148,711 for 12 contracts. We found that District officials did not seek competition for six of these contracts with payments totaling \$37,176. For example, the District has used the same architect for the last 12 years on multiple capital projects. However, District officials could not provide documentation that they sought competition for this service. According to the purchasing agent, it was better to use the same architect for continuity for each project. However, the District’s policy states when retaining professional and/or consultant services, the District must consider not only special knowledge and expertise, but also the quality and cost of the services.

District officials did not always use an RFP process to obtain proposals because they felt the providers had the best level of expertise. However, District officials should still document the reasons for the determination. Additionally, the Superintendent stated they did not always obtain written or verbal quotes for purchases because they are in a rural area with limited vendors that will provide the services. However, the District’s location does not preclude them from soliciting quotes or using State contracts. In addition, officials¹ stated they could

...District officials did not obtain or document the minimum required quotes per District policy for eight purchases (32 percent) totaling \$106,212.

¹ Superintendent, Assistant Superintendent and Treasurer

not provide documentation for written or verbal quotes because there was a large turnover of key personnel and the records left by the prior staff were unorganized. While District officials also stated they may have documentation to support the exceptions noted, they could not provide it to us for review.

When officials do not use a competitive process to procure goods and services and adhere to the guidelines in the District's procurement policy, there is an increased risk that goods and services may not be procured in the most cost-effective manner, to ensure the most prudent and economical use of public money, without favoritism.

How Can Officials Ensure Claims Are Audited for Accuracy and Completeness?

An effective claims audit process ensures that every claim against a district is subjected to an independent, thorough and deliberate review. The claim should contain adequate supporting documentation to determine whether it complies with statutory requirements and district policies, and that the amounts claimed represent legitimate and proper district expenditures.

A board should establish a policy which details all the claims auditor's duties and specifically explains all responsibilities mentioned in the policy. For example, it is important for the claims auditor to determine whether the claims are properly supported and whether the district received the goods or services described on each claim by reviewing detailed receipts, invoices and receiving documentation. The claims auditor should compare the claim with the related purchase order (PO) to determine whether the PO preceded the invoice date and the amount billed agrees with the PO, bid or quote. An effective claims process helps control expenditures and ensure that purchases are properly authorized, competitive pricing policies have been complied with, and adequate funds are available in the budget.

Claims Were Not Always Effectively Audited for Accuracy and Completeness

The Board appoints the claims auditor at the District's annual reorganizational meeting. The Board adopted a policy to serve as guidance to the claims auditor in performing her duties. The District's claims auditor policy outlines the responsibility for formally examining, allowing or rejecting claims by the claims auditor. It specifically states the auditing process should determine that the:

- Proposed payment is for a valid and legal purpose,
- Obligation was incurred by an authorized District official,

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- Items for which payment is claimed were in fact received or, in the case of services, that they were actually rendered,
 - Obligation does not exceed the available appropriation, and
 - Submitted voucher is in proper form, mathematically correct, does not include previously paid charges and is in agreement with the PO or contract upon which it is based.

The District's claims auditor did not effectively audit claims for accuracy and completeness. We reviewed 30 claims totaling \$458,692 to determine whether an accurate and complete claims audit was performed. For each claim, we determined if it: was for a legal and valid purpose; was authorized and approved; exceeded the PO amount; was mathematically correct; had sales tax charged; agreed to the PO or contract it is based upon; had an indication that the goods and services were actually received; had previously been paid for in full or in part; and had a requisition attached.

We found the following discrepancies:

- Eleven claims totaling \$6,763 (37 percent) did not agree with the PO or contract that it was based upon because the blanket POs did not offer any description or pricing on what goods and/or services were to be bought from the vendor. For example, blanket POs were used for automotive parts, office supplies and bakery items.
- Six claims totaling \$4,410 (20 percent) did not have signed documentation indicating the goods and/or services were received and the claim was valid for payment. For example, Medicare reimbursements had no authorizing signature indicating services were received by the claimant and the claim was a valid payment.

While all 30 claims reviewed had purchases that did not exceed the PO amount, the claims auditor stated she does not review blanket POs to ensure the amount is not exceeded. Additionally, because the claims auditor was not provided access to the District's financial application, she was unable to verify availability of funds and ensure pricing matched vendor agreements. The claims auditor also stated she has not received any formal training on her job function and had no prior experience with this type of work before accepting the position.

Because the claims auditor did not perform an accurate and complete review, there is an increased risk that the goods or services may not have been received, or inappropriate claims could be paid.

The District's claims auditor did not effectively audit claims for accuracy and completeness.

What Do We Recommend?

The Board should:

1. Ensure that officials and staff comply with competitive bidding statutes and the District's purchasing policies and procedures and they clearly document their compliance.
2. Provide formal training to the claims auditor to ensure she understands and can properly conduct her job duties.
3. Ensure that the claims auditor is provided access to District records to verify the availability of funds as well as contract terms and quoted rates.

District officials should:

4. Oversee the procurement process and ensure purchases are made in compliance with the District's policy and procedures and that a competitive process is used when bidding is not required.
5. Obtain verbal and written quotes and ensure that all proper documentation is maintained.
6. Ensure all proper documentation is maintained for the selection of professional services.
7. Ensure all POs contain specific descriptions and pricing on what goods and/or services are to be purchased or received from the vendor.

The claims auditor should:

8. Ensure a thorough and deliberate claims audit is conducted in accordance with the Board-adopted policies.

Appendix A: Response From District Officials

ONTEORA CENTRAL SCHOOL DISTRICT

4166 Route 28 PO Box 300
Boiceville, New York 12412

Office (845) 657-8499
Fax (845) 657-8742

Memorandum

Date: April 8, 2022
To: Ms. Lisa Reynolds, Chief Examiner
From: Dr. Donald Gottlieb
Subject: District Response to the Procurement and Claims Audit

Attached please find the Onteora School District Board of Education acknowledging receipt of the draft audit and has directed the Central Administration of the District with the task of preparing an action plan in response to the findings.

Thank you,

Dr. Donald Gottlieb
Interim Assistant Superintendent for Business

ONTEORA CENTRAL SCHOOL DISTRICT

BOARD OF EDUCATION
BOICEVILLE, NEW YORK 12412

The Onteora Central School District Board of Education approved the following at the Regular Meeting held on April 5, 2022:

The Board of Education of the Onteora Central School District acknowledges receipt of the draft of the audit entitled "Procurement and Claims Auditing." The Board has directed the Central Administration of the District with the task of preparing an action plan in response to the findings.

Motioned: Trustee Sherry
Seconded: Trustee Bishop
Result: Unanimous
Yea: Trustee Salem, Trustee Sherry, Trustee DeJesus, Trustee Bishop
Not Present: Trustee Osmond, Trustee Storey

Date: 4/7/2022

Fern Amster
District Clerk

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 involved in the purchasing process to gain an understanding of the District's procurement practices and controls.
- We interviewed the claims auditor to gain an understanding of the claims audit process.
- We reviewed the Board's adopted policies and written procedures to determine whether they addressed procuring goods and services that are not subject to competitive bidding, in accordance with statutory requirements and if they provided sufficient guidance for the claims auditor.
- We reviewed cash disbursement data for our audit period and identified 98 payments totaling \$12,780,374 that were subject to competitive bidding requirements. Based on the largest amounts and the uniqueness of each vendor, we selected 10 purchases totaling \$1,467,918 to determine if the District obtained and documented bids for purchases of goods and services per District policy and GML. If a vendor was already chosen in a different test, it was not used again in this test. If bid documentation was not provided, we performed price comparisons to determine if the goods were reasonably priced.
- We reviewed cash disbursement data for our audit period and identified 226 payments totaling \$1,936,402 that required quotes per the District's policy. Using professional judgement, we selected a sample of 25 vendors. We selected our sample by disqualifying any payments made to a vendor who was selected for another test. We then chose the largest 25 payments, totaling \$347,665, that were made to 25 different vendors. We requested claim packets for each transaction selected and reviewed the claim packets to determine if quotes were obtained and documented in accordance with the Board policy. If quotes were not provided, we performed price comparisons to determine if the goods were reasonably priced.
- We reviewed cash disbursement data for our audit period and identified 26 professional service providers receiving payments totaling \$3,376,724. We randomly selected a sample of 10 vendors receiving payments totaling \$148,711 for our testing. We reviewed the documentation received from issuing RFPs to obtain proposals, if any, to determine whether District officials sought competition for the services. We selected one payment for each vendor selected and reviewed the claims packet to determine whether payments were made per contracts and for proper District purposes. If a vendor had multiple POs, we selected additional payments to review which led to a total of 12 payments selected.

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- We randomly selected 30 claims packets totaling \$458,692 out of 5,897 claim packets totaling \$78,410,598 over the scope period of two years. We reviewed each claim packet selected and determined whether it: was for a legal and valid purpose; was authorized and approved; had exceeded the PO; was mathematically correct; included sales tax when it should have been exempt; agreed to the PO or contract it was based upon; had signed documentation indicating goods and services were actually received; was previously paid in full or in part; and had a requisition attached.

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/files/local-government/pdf/regional-directory.pdf

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

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

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

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/files/local-government/publications/pdf/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

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

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

Local Government and School Accountability Help Line: (866) 321-8503

NEWBURGH REGIONAL OFFICE – Dara Disko-McCagg, Chief Examiner

33 Airport Center Drive, Suite 103 • New Windsor, New York 12553-4725

Tel (845) 567-0858 • Fax (845) 567-0080 • Email: Muni-Newburgh@osc.ny.gov

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