



Saratoga Springs City School District

Procurement

2023M-25 | September 2023

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Report Highlights

Saratoga Springs City School District

Audit Objective

Determine whether Saratoga Springs City School District (District) officials procured goods and services according to Board of Education (Board) policies and statutory requirements.

Key Findings

District officials did not always procure goods and services according to policy requirements or maintain adequate supporting documentation for the purchases. This increased the risk that the District may have overpaid for goods and services and appear to have used favoritism. Officials did not:

- Comply with policy requirements when procuring four (13 percent) purchase or public works contracts totaling \$36,783 (we reviewed 30 contracts totaling \$1.2 million).
- Maintain contract pricing documentation for 13 contracts (43 percent) totaling \$471,156.
- Safeguard the purchasing agent's electronic signature.

Key Recommendations

- Comply with purchasing policies when procuring purchase and public works contracts that are not subject to competitive bidding requirements.
- Maintain adequate documentation to support pricing and purchase decisions.
- Ensure that the purchasing agent maintains custody of his electronic signature and directly supervises the purchase order approval process when others use his signature.

Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The District serves students in the City of Saratoga Springs and the Towns of Greenfield, Malta, Milton, Saratoga and Wilton in Saratoga County.

The District is governed by the elected nine-member Board that is responsible for managing and controlling 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.

The Assistant Superintendent for Business, who is also the District's purchasing agent, oversees the District's business operations and purchasing. An assistant purchasing agent and a purchasing specialist assist him with purchasing duties.

Quick Facts

2022-23

Appropriations \$137.1 million

During Our Audit Period

Total Purchases \$57.6 million

Total Payments for Professional Services \$3.7 million

Audit Period

July 1, 2021 – November 30, 2022

Procurement

How Should District Officials Procure Goods and Services?

School districts (districts) generally are required to solicit competitive bids for purchase contracts that equal or aggregate to more than \$20,000 and public works contracts that equal or aggregate to more than \$35,000 (i.e., the competitive bidding threshold). For goods and services that are not required to be competitively bid, district officials must procure them prudently, economically and in the best interests of the taxpayers.

A district board (board) must adopt and annually review written policies and procedures for procuring goods and services that are not subject to competitive bidding. These policies and procedures should describe procurement methods, explain when to use each method and require employees to retain adequate documentation for their actions taken. In addition, every five consecutive years, districts must use a competitive request for proposal (RFP) process when contracting for their annual audit.

Instead of soliciting competitive bids or using other procurement methods, a district can make purchases using contracts (State contracts) awarded by the New York State Office of General Services (OGS) or cooperative purchasing arrangements, where two or more entities work together to procure goods and services. When using a State contract or cooperative purchasing arrangement, a district should document the contract number and pricing. For purchases that are exempt from competition, such as purchases made from sole sources, a district should maintain documentation explaining the details needed to validate the method used.

District officials should monitor and enforce compliance with board-adopted purchasing policies and applicable statutory requirements. This helps ensure that their district procures goods and services at competitive prices and protects against favoritism, extravagance, fraud and corruption.

Officials Did Not Always Comply With Policy Requirements

Competitive Bidding and Quotes – We reviewed 30 purchase and public works contracts totaling \$1.2 million (of the \$57.6 million paid during our audit period) to determine whether officials procured them according to the District’s purchasing policies. Of the 30 contracts, 15 exceeded the competitive bidding threshold and 15 were required to be procured by obtaining quotes or proposals.

Officials procured 26 purchase and public works contracts according to Board policy and statutory requirements. However, four purchases (13 percent) totaling \$36,783 were not procured according to policy requirements. For three contracts totaling \$29,486, officials did not obtain three formal written proposals,

as required. Instead, the procurement of these contracts had documentation that consisted of scanned copies of shopping carts or quotes provided by three vendors (the one selected vendor and two unselected competing vendors). Also, officials did not obtain formal written proposals or provide us with any documentation showing they solicited competition for the remaining contract totaling \$7,297.

Professional Services – We reviewed payments totaling \$3.6 million made to 10 professional service providers (of the \$3.7 million paid during our audit period) to determine whether they were competitively procured according to the District’s purchasing policies and other requirements. The purchasing policies do not require officials to use RFPs to procure professional services. Instead, the policies indicated that the District would periodically issue RFPs for professional services.

Officials used an RFP to procure services from six of the 10 professional service providers. These services included an annual external audit and legal, architect and engineering, construction management, fiscal advisor and internal audit services. However, officials did not use an RFP process to procure services totaling \$212,248 from four medical and health service providers. Instead, officials entered into annual contracts with these providers because – after consulting with the District’s attorneys – officials did not think it was necessary to use RFPs when procuring medical and health services. Although officials are not required to use an RFP to procure these services, when officials do not use an RFP process, they cannot determine whether other providers could have performed the same services at a lower cost.

When officials do not comply with the District’s purchasing policies or seek competition when procuring professional services, the District has an increased risk that it may overpay for goods and services and appear to use favoritism. Officials also cannot assure taxpayers that purchases are being made in the most prudent and economical manner.

Purchases Did Not Have Adequate Supporting Documentation

Of the 30 purchase and public works contracts that we reviewed, 13 contracts (43 percent) totaling \$471,156 did not have supporting documentation for contract pricing and sole source purchases (Figure 1).

Five contracts totaling \$281,534 used State contracts and cooperative purchasing, but officials could not provide documentation to support that the contract prices paid were correct.¹ In addition, because the OGS website reflected only the new pricing information for these contracts, we could not confirm that the District paid the correct price for goods and services received.

The remaining eight contracts totaling \$189,622 were made from sole sources. The supporting documentation for these procurements included letters

indicating that the selected vendor was the “sole source provider.” However, officials did not maintain required documentation to support that they contacted two other vendors, which were unable to meet the specifications. The purchasing agent told us that he reviewed sole source purchases to ensure that the goods or services could be provided only by the selected vendor. However, no one maintained any documentation of that review with the purchase orders.

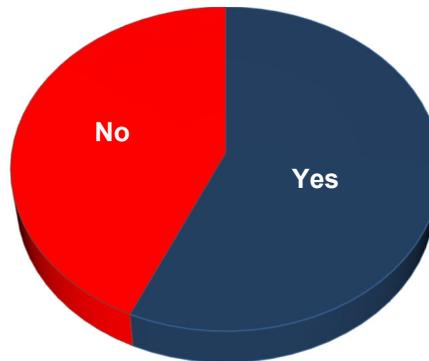
When officials do not maintain adequate documentation to support their purchase decisions, they cannot assure taxpayers that District purchases are made in the most prudent and economical manner and without favoritism.

How Should District Officials Safeguard the Purchasing Agent’s Electronic Signature?

The official responsible for approving purchase orders should always ensure that their electronic signature is protected from unauthorized use. To adequately safeguard and prevent unauthorized use of electronic signatures, the official with signatory authority should maintain custody of their signatures and directly supervise, or be present, when their signature is applied to purchase orders.

FIGURE 1

Did Purchase and Public Works Contracts That We Reviewed Have Adequate Supporting Documentation?



...[T]he official with signatory authority should maintain custody of their signatures. ...

¹ The purchasing specialist told us that the District implemented new procedures at the beginning of the 2022-23 fiscal year to ensure contract prices were documented.

Officials Did Not Safeguard the Purchasing Agent's Electronic Signature

The District Treasurer (Treasurer) was responsible for maintaining the electronic key fob that contained the purchasing agent's, assistant purchasing agent's and Treasurer's signatures. To apply the purchasing agent's signature to a purchase order, an employee requested the electronic key fob from the Treasurer. When using the electronic key fob for the first time on a computer, an individual was required to enter a password. However, the computer would then retain the password for future use.

Once the purchasing agent reviewed and approved a purchase requisition, the purchasing specialist was responsible for generating a purchase order. During this process, the purchasing specialist applied the purchasing agent's electronic signature to the purchase order. However, the purchasing agent did not review purchase orders – to ensure they agreed with the requisitions – before or after the purchasing specialist applied his signature.

Without adequate internal controls over the use of electronic signatures, the District has an increased risk that an unauthorized purchase could be approved and made.

What Do We Recommend?

District officials should:

1. Comply with the District's purchasing policies when procuring purchase and public works contracts that are not subject to competitive bidding requirements.
2. Maintain adequate documentation to support pricing when making purchases through State contracts.
3. Maintain adequate supporting documentation for all purchase decisions, including purchase and public works contracts made from a sole source vendor.

The purchasing agent should:

4. Maintain custody of his electronic signature and directly supervise the purchase order approval process when others use his signature.

Appendix A: Response From District Officials

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August 28, 2023

To: Gary Gifford, Chief Examiner
Office of the New York State Comptroller, Glens Falls Regional Office
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Glens Falls, NY 12801-4396

**SCHOOL DISTRICT RESPONSE TO NYS OSC REPORT
2023M-25: PROCUREMENT**

Background to School District Response

This response is written to address the findings and the language contained in the draft report issued on June 8, 2023, as well as the modification to the wording in the large text box on page 6 of the draft report received by the school district on June 30, 2023. If changes were made to the report after this response which creates inconsistencies between the report and the response, it is without notice or prior knowledge on the part of school district officials.

See
Note 1
Page 10

In summary response, there are deficiencies identified in this report which school district officials can identify with, acknowledge, and will respond to accordingly in the Corrective Action Plan. There are other deficiencies noted in the report that school district officials either cannot identify with, disagree with, or believe that the context used in the report is inadequate. This response is intended to address these items specifically.

Observations

1. Competitive Bidding & Quotes: The report indicates that 30 purchase and public works contracts totaling \$1.2 million were reviewed. Once district officials were provided with the list of disbursement used, and after inquiring further about the list provided, it was determined that there were inconsistencies in the selection of information pulled from the list of disbursements.

See
Note 2
Page 10

There was a total of 24 disbursements from two vendors listed as "Various" on the list of disbursements provided to the district that are reported as two contracts (of the 30

referenced in the report). If reported objectively and consistently with the remainder of disbursements, the number of disbursement transactions reported should have been 52. This serves to amend several references to percentages throughout the report in the district's favor. Additionally, of the two contracts referred to as "Various", one set of transactions was assigned a modified date range (inconsistent with the stated audit period) to exclude four additional disbursements, while the other contract was reported only on the bid amount and not on the total amount of disbursements.

These contracts were also reported as totaling **\$1.2 million** (of the \$57.6 million paid during the audit period). Per the cash disbursement listing from the district's records, these disbursements in their complete form total **\$2.4 million**. After several discussions with audit staff, it was determined that only select items were chosen from certain disbursements (i.e., a disbursement made for several buses was only evaluated on one bus purchase or some other undisclosed subset of the total disbursement). We also note that, while percentages were used in many other areas of the report, no percentage was assigned here. The amount reported represents slightly more than **2% of expenditures, excluding payroll, benefits, and debt**.

Of the four deficiencies identified totaling \$36,783 (0.06% of disbursements made during the audit period), one had been bid previously by another local district and shared by several districts for athletics. The business office was not aware that the bid was not renewed and will address that in the future. The other three disbursements (averaging \$9,829, or 0.02% of disbursements during the audit period) were not specifically identified, but documentation was provided and appears to have not met the stated criteria in the opinion of audit staff.

See
Note 3
Page 10

Audit staff should use a consistent and transparent methodology when compiling results, and there should be a common understanding with auditees of the data selected and the objective methodology which supports the use of such data. There should also be clear details provided when deficiencies are noted so that district officials can make appropriate corrections.

See
Note 2
Page 10

- 2. Professional Services:** The report notes that, of the 10 professional services reviewed totaling \$3.6 million (of the \$3.7 million paid during the audit period, a **sample size of 97.3%**), an RFP process was not used for four medical and health service providers. In addition to the training and specialized certification required by these providers, services are most often customized due to the needs of students (i.e., psychological evaluation with bi-lingual capabilities). While district officials always seek to maximize competition and efficiency with taxpayer dollars, it is seldom possible to do so with the services noted in the report. The report notes that "officials are not required to use an RFP to procure these services." The district's purchasing policy also provides an exemption for professional services "that are highly specialized and/or necessitate confidentiality." The district policy goes on to provide examples which include physicians and therapists. It is the position of school district officials that the audit report unfairly and inaccurately portrays a lack of fiduciary responsibility. The district's position described above is further supported, as noted in the report, by consultation with legal counsel for the district.

-
3. State Contracts: In the five instances where State contracts were used, it is noted that the district could not provide documentation to support that contract prices paid were correct because the OGS website reflected only the new pricing information. District officials communicated and demonstrated to auditors the process that is used to confirm New York State OGS pricing when state contracts are used. As the fine print in the report also indicates, a process has been established by which the then current State contract pricing is being documented. It is the district's position that this is a shortcoming of another state agency to be able to provide contract pricing from a given point in time. It is both redundant and inefficient for every school district and municipality that utilizes a state contract to maintain contract files from each point of use. Importantly, the NYS OSC guidance document¹ on this topic does not indicate any such requirement to maintain this level of documentation.

See
Note 4
Page 10

Of the other eight instances indicated in the report as sole sources, 51% of the contracts cited were for the purchase of textbook and curriculum materials. District officials discussed at length with auditors the committee process through which curriculum is decided upon and demonstrated evidence to the same effect. It is the position of district officials that even with inherently limited resources and a need to be judicious with taxpayer funds, the curriculum provided to students should not necessarily be provided to the lowest bidder and that these purchases should not have been indicated as sole source procurements. In all other instances, a Sole Source Letter was provided and the process through which these purchases are verified was discussed with auditors. The report accurately reflects the district's inability to provide documentation of competition that does not exist in all but one instance. It is important to note that this is not a statutory requirement, but something in district policy which will be amended to better reflect the practice.

4. Level of Risk and Control: The heading and the claim that 'officials did not safeguard the Purchasing Agent's electronic signature' is neither reflective of the district's practices nor appropriate for the level of risk identified by auditors. In fact, upon walkthrough with audit officials during the exit conference, district officials were able demonstrate that dual control existed throughout the requisitioning and approval processes. As noted in the report, the responsibility to maintain the digital file with the necessary signatures is delegated to the District Treasurer. The process, however, is structured that no requisitions can be converted to a Purchase Order without the advance email notification and subsequent prior approval of either the Purchasing Agent or Deputy Purchasing Agent under their respective approval paths. There is no legitimate internal control risk identified by audit staff which suggests that the Purchasing Specialist has any ability to generate signed Purchase Orders without the necessary prior approval of the respective officials or to make modifications once approved by the proper authority.

See
Note 5
Page 10

¹ "Seeking Competition in Procurement." Local Government Management Guide. Office of the New York State Comptroller, Accessed July 10, 2023. <https://www.osc.state.ny.us/files/local-government/publications/pdf/seeking-competition-in-procurement.pdf>.

5. Solutions: Additionally, when audit staff were asked about alternative solutions, two were provided: 1. the Purchasing Agent should sit with the Purchasing Specialist when Purchase Orders are printed, or, 2. the Purchasing Agent should sign Purchase Orders manually. The volume of Purchase Orders would preclude either of these two solutions and would not alter the level of risk associated with the process, even if accurately reflected in this audit report. The process, as demonstrated to audit staff, is appropriately designed to maintain positive dual control over every aspect of the requisitioning process. It is the district's position that this portion of the audit report is unnecessarily overstated and misrepresents the internal controls maintained by district officials².

See
Note 6
Page 11

6. Sample Size: If this audit report accurately reflects that only 40 transactions were reviewed, the number reflects **0.7% of at least 5,642 cash disbursements** during the audit period, excluding payroll, benefits, and debt. This number discounts the selective inclusion of various disbursements as previously described. Statistical significance is both relevant and critical to a report such as this one, particularly when claims of misuse and noncompliance as contained herein are published publicly and are misleading to the reader without the proper context.

See
Note 7
Page 11

It is statistically almost impossible that an equal number of transactions from two different categories containing thousands of transactions met the selection criteria as stated in Appendix B (verified). When asked, audit staff were unable to identify the population of transactions which met the stated criteria or how the selected transactions were chosen. Without transparency, objectivity can only be assumed.

Conclusion

On behalf of the district, we appreciate the time and attention that the audit staff have given to ensuring accountability for the taxpayers of the school district. Constructive feedback is always appreciated in our culture of continuous improvement. We hope it is also welcome in yours.

Sincerely,

Dr. Michael Patton
Superintendent

Tony Krackeler
President, Board of Education

² The school district had an independent evaluation of internal controls over purchasing procedures performed by internal auditors from Bonadio & Co. in 2021. The report dated April 26, 2021, identified no deficiencies in internal controls over purchasing procedures.

Appendix B: OSC Comments on the District's Response

Note 1

As a result of the audit's exit conference, we made a report edit and shared an updated report with officials on June 30, 2023. No other changes were made to the report.

Note 2

We reviewed 30 purchase and public works contracts, as described in Appendix C. During the audit, we met with officials to discuss the sampling methodology and later at the exit conference, where officials asked specific questions about totals they calculated from a list we provided. After the exit conference, we provided officials with more details for the 30 purchase and public works contracts that we reviewed. We also explained that the total disbursement amounts would not match directly with the purchase and public works contracts that we reviewed because the check disbursements included payments for other purchase and public works contracts, which had separate purchase orders that were unrelated to the transactions we reviewed. In addition, we provided officials with detailed finding information during the audit.

Note 3

Officials did not adhere to the District's purchasing policies that required officials to obtain three formal written proposals. Officials were unable to provide documentation or support indicating they followed the policy and obtained all required proposals.

Note 4

Although officials state that a State agency is at fault for District officials being unable to support that they paid the correct contract prices, District officials are responsible for supporting District purchases. Specifically, including price information in purchase and claims documentation helps officials, during the claims audit process, ensure that the District pays the correct price. Our publication *Local Government Management Guide: Improving the Effectiveness of Your Claims Auditing Process* provides guidance on maintaining supporting documentation.²

Note 5

Because electronic signatures must be protected from unauthorized use, we discussed risks, access rights and the purchasing process with officials during our audit and exit conference.

² <https://www.osc.state.ny.us/files/local-government/publications/pdf/improving-the-effectiveness-of-claims-auditing-process.pdf>

Note 6

We did not recommend these alternative solutions.

Note 7

We did not use statistical sampling, review the entire population, make generalizations about the population as a whole or project our results. The audit report details facts associated with the purchase and public works contracts that we reviewed, and we did not identify or make claims of misuse.

Appendix C: 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 reviewed and evaluated the District's purchasing policies and procedures.
- We used our professional judgement to review 15 purchase and public works contracts that exceeded competitive bidding thresholds – which officials entered into during our audit period – to determine whether officials solicited competitive bids. We chose to review these contracts based on vendor names and dollar amounts.
- We used our professional judgement to review 15 purchase and public works contracts that did not exceed competitive bidding thresholds – which officials entered into during our audit period – to determine whether officials procured according to the District's purchasing policies. We chose these contracts based on vendor names and dollar amounts (i.e., purchase and public works contracts that exceeded \$2,000).
- We used our professional judgment to review 10 professional service providers that were paid during the audit period to determine whether their services were procured using RFPs. We chose to review these service providers based on vendor names and dollar amounts.

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 D: 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

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