

Kinderhook Central School District

Procurement

DECEMBER 2018



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

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Report Highlights

Kinderhook Central School District

Audit Objective

Determine whether the District procured goods and services in accordance with District policy and procedures.

Key Findings

- District officials properly sought competition for 10 purchases totaling \$1.2 million that exceeded General Municipal Law's bidding requirements.
- District officials did not provide documentation that they obtained quotes prior to making three purchases totaling \$18,174.
- District officials were unable to provide documentation supporting their selection of four professional service providers paid a total of \$76,781.

Key Recommendations

- Review the procurement policy annually and make any amendments to keep the policy current.
- Ensure that compliance with the procurement policy is part of the claims approval process.
- Ensure District officials seek competition when procuring goods and services, as required by District policy.

District officials disagreed with certain aspects of our findings and recommendations, but indicated they have initiated corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The Kinderhook Central School District (District) serves the Town of Kinderhook in Columbia County. The Board of Education (Board) is responsible for managing the District's operations. The Superintendent of Schools is responsible for the District's day-to-day management and for the development and administration of the budget. The purchasing agent is responsible for ensuring all goods and services are procured in the most prudent and economical way.

Quick Facts

| | |
|--|----------------|
| Employees | 557 |
| 2016-17 Enrollment | 1,837 |
| 2017-18 Budgeted Appropriation | \$39.2 million |
| Total General and Capital Fund Purchases | \$7.6 million |

Audit Period

July 1, 2016 – November 9, 2017

Procurement

How Should a School District Procure Goods and Services?

New York State General Municipal Law (GML)¹ requires a board to advertise for bids for purchases in excess of \$20,000 and public work contracts in excess of \$35,000. In lieu of advertising for sealed bids, district officials also can make purchases using New York State contracts awarded by the Office of General Services. Purchases of like items that aggregate to competitive bidding thresholds during a fiscal year also must be publicly bid. GML requires the board to adopt a procurement policy for goods and services that do not have to be competitively bid.

The District's procurement policy requires District officials to comply with GML bidding requirements and to seek competition for goods and services exceeding \$3,000 and public works exceeding \$5,000. In addition, the policy requires use of requests for proposals (RFPs) for professional service contracts (e.g., architects, engineers, accountants, lawyers, underwriters, fiscal consultants, etc.). The purchasing agent is required to maintain adequate documentation of RFPs, bids and quotation requests and the related responses.

The District Did Not Always Adhere to its Purchasing Policy and Procedures

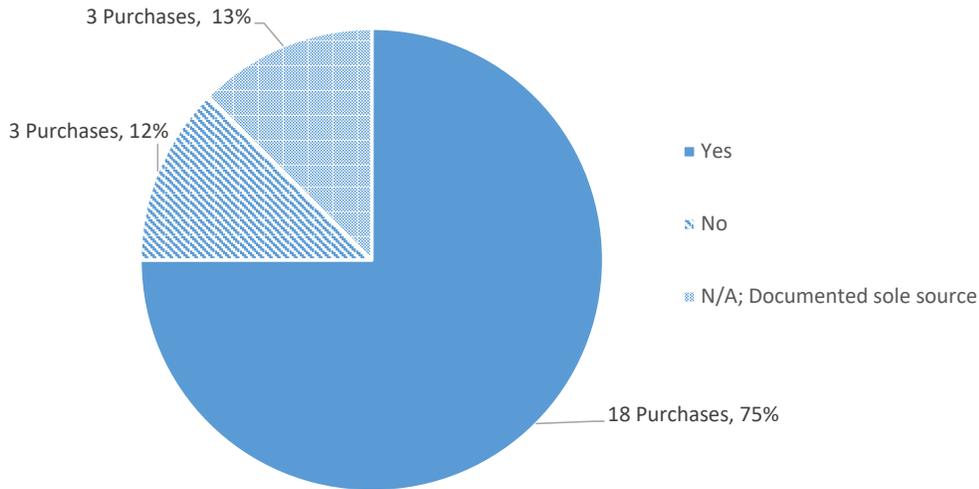
District officials did not always procure goods and services in accordance with Board policy. We randomly selected a sample of 10 purchases totaling \$1.2 million from a total population of 47 purchases totaling \$3.9 million from the general and capital funds that exceeded GML bidding thresholds. We reviewed supporting documentation such as bids and State contracts to determine whether the purchases followed the District's policy for competitive bidding requirements. We found District officials sought competition for all 10 of these purchases.

We also selected 24 purchases totaling approximately \$192,000 from a population of 219 purchases totaling approximately \$1.5 million that required quotes per the District's policy. We reviewed supporting documentation such as written quotes and verbal quote logs to determine whether the purchases were made in accordance with policy. Although we did not identify any issues with 21 purchases totaling approximately \$174,000, District officials did not provide documentation that they obtained quotes prior to making three purchases totaling \$18,174 (Figure 1).

¹ New York State General Municipal Law (GML) Section 103

FIGURE 1

Quotes Sought

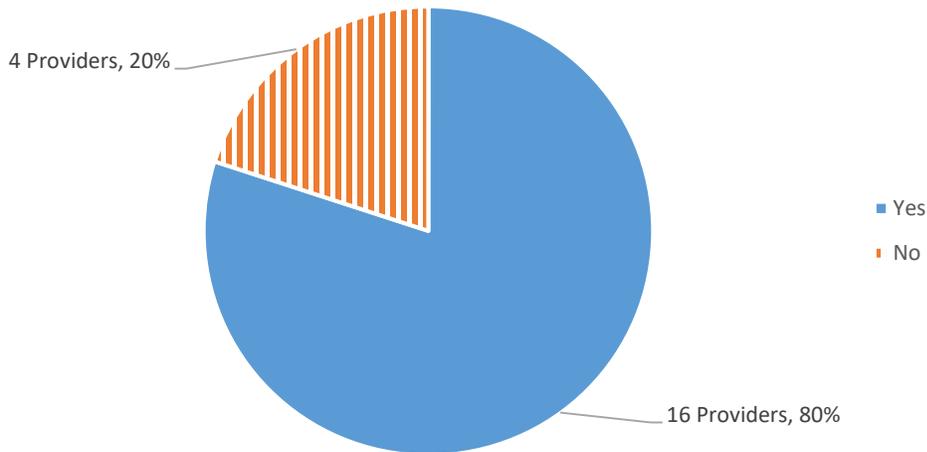


These purchases included boiler maintenance totaling \$7,660, gas and diesel for buses totaling \$6,064 and propane totaling \$4,450. The Business Manager told us that the boiler maintenance was an emergency purchase but had no documentation to support an emergency had occurred. Further, the District's policy requires the District to seek and maintain records of verbal or written quotes, to the extent practicable under the circumstances, when making emergency purchases. He also told us that the selected vendor sold the District propane for less than the State contract price but could not provide documentation to support this. However, the facilities director stated the propane was bid in 2010 with an option to extend annually for up to four years, but he did not realize extensions would not cover the 2016-17 fiscal year.

In addition, we judgmentally selected 20 professional service providers receiving payments totaling \$789,600 from a population of 35 professional service providers receiving payments totaling approximately \$1.2 million to determine whether the District sought competition for them. District officials were unable to provide documentation supporting the selection of four providers paid a total of \$76,781 (Figure 2).

FIGURE 2

Competition Sought For Professional Services



Examples of these services include IT consulting services totaling \$20,070 and attorney services totaling \$40,500. District officials told us that they did not routinely solicit proposals and quotations for IT consulting services. District officials also told us that they retained the same attorneys to maintain consistency during complex labor negotiations, capital projects and tax certiorari cases but did not provide additional documentation to support their statements.

Although we found the goods and services procured were for legitimate and appropriate District purposes, without a competitive process, District officials and the Board do not have assurance that goods and services are being procured in the most economical way and in the best interests of taxpayers.

What Do We Recommend?

The Board should:

1. Review the procurement policy annually and make any amendments to keep the policy current.
2. Ensure that compliance with the procurement policy is part of the claims approval process.

The Board and purchasing agent should:

3. Ensure that District officials seek competition when procuring goods and services, as required by District policy.

Appendix A: Response From District Officials



Ichabod Crane Central School District

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November 20, 2018

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RE: Audit Response

The Kinderhook (Ichabod Crane) Central School District has received the Draft Audit Report - Procurement for the audit period of July 1, 2016 - November 9, 2017 as prepared by the Office of the State Comptroller. On behalf of the Board of Education and the District's Administration, we would like to thank the Comptroller's staff for conducting the audit with professionalism, consideration and timeliness.

The Ichabod Crane School District regards an audit as an opportunity to review, strengthen and ultimately improve both our financial processes and oversight. Procurement requires compliance with New York State General Municipal Law (GML), is guided by district policy, implemented by administration through the means of written procedures and monitored by the audit practice. The procurement of goods and services is an important component and mechanism for providing the District with the tools necessary to achieve its academic goals. Therefore, it's imperative that we institute a high level of internal controls in order to assure taxpayers that the District is spending in the most economical and appropriate manner possible.

The Board of Education and Administration believe transparency is an essential element in the preservation of public trust regarding procurement. The District sustains transparency of the procurement process by posting financial documents such as the External Audit, Budget and OSC Fiscal Stress Tests on the website, public readings of policy and posting of all policies on the website, budget and audit presentations at Board meetings, the publication of newsletters and open public discussions.

Over the past several years we have conscientiously worked towards sustaining and improving our financial controls through the development of applicable procedures, systematic review of policy and a three tiered audit system. The three tiered audit approach includes the following: 1. Internal Audit, 2. External Audit and 3. Claims Audit. An independent internal auditor is secured by means of an RFP and conducts two audits per year, including a Risk Assessment and a Focus Area. A different focus area is selected each year. An independent external auditor is

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MISSION STATEMENT: The Ichabod Crane Central School District is dedicated to preparing students to become contributing members of society in an ever-changing world by valuing diversity; providing a safe environment; and promoting unique talents, a desire for life-long learning, a strong spirit of community, and Rider pride.

also obtained through the issuance of an RFP and completes an annual audit of the District's financial positions. We are pleased to report that our external audit has received a clean opinion for at least 10 years or more. The claims auditor is employed by the District using an annual stipend and reports directly to the Board of Education. The claims auditor reviews payables on a bi-weekly basis and no checks are released without their approval. Additionally, the claims auditor provides a monthly report to the Board. Finally, the District maintains an Audit Committee composed of three members of the Board of Education, meets three times per year and provides reports to the full board.

The Report of Examination issued by the State Comptroller's Office offers 4 key findings. Although, the District respectfully disagrees with OSC on three of the four items and has requested those in question to be removed from the report, we appreciate the opportunity to deliver further clarification and insight that was not contained in the OSC report. The findings and recommendations as presented by OSC and the District's responses are detailed below.

Response to Figure 1: Quotes

OSC identified three purchases totaling \$18,174 that required obtaining quotes per the District's purchasing policy. The purchases included boiler maintenance totaling \$7,660, gasoline and diesel purchases in the amount of \$6,064 and a propane purchase for \$4,450.

1. Boiler Maintenance for \$7,660: The District considers this to be a one-time emergency purchase because there was a cracked boiler section that required immediate repair. The cracked boiler occurred during the winter heating season and could have potentially left the building without the means to adequately heat the building, possibly resulting in the loss of an instructional day if the building had to be closed until repair completed. Unfortunately, correspondence indicating the emergency nature of the purchase was not saved. The District has asked OSC to remove this finding due to its emergency status.
2. Gasoline and Diesel in the amount of \$6,064: The District agrees that the purchasing policy was not completely followed with this purchase. However, the vendor in this particular case agreed to a price less than the State Contract price at the time of purchase, resulting in a savings for the District and taxpayers. The District has requested OSC to remove this finding from the report because the steps taken by the District resulted in these savings. Additionally, please note that in 2017-18, all gasoline and diesel purchases strictly followed bid protocols as prescribed by the District's purchasing policy.

See
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See
Note 2
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3. Propane Purchase totaling \$4,450: Similar to the above, to the District agrees that the purchasing policy was not completely followed with this purchase. Again, the vendor in this particular case agreed to a propane price less than the State Contract price at the time of purchase, resulting in a savings for the District and taxpayers. The District has requested OSC to remove this finding from the report because the steps taken by the District resulted in these savings. Additionally, please note that in 2017-18, all propane purchasing met the bid protocols as prescribed by the District's purchasing policy.

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Note 2
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The District agrees with OSC that all goods and services procured were for legitimate and appropriate purposes. However, we disagree in regard to the District not having an assurance that goods and services are being procured in the most economical manner and in the best interests of taxpayers. The District continuously strives to maximize all revenue through careful budgeting, strong procurement practices and thorough claims auditing. As detailed in the District's response, the purchases of gas, diesel, and propane resulted in a net savings for the District and taxpayers. Finally, the emergency repair of a cracked boiler system assured the District and taxpayers that there would not be any loss of educational instruction or State Aid if a building had to be closed due to lack of heat.

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Response to Figure 2: Competition Sought for Professional Services

The OSC report denotes that there were 4 providers of professional services totaling approximately \$77,263 that the District was unable to provide supporting documentation proving a competitive selection process. Professional services included in the report included in the report were limited to attorney services. Although the District views this finding to be limited in scope and financial impact, appropriate steps have been taken to rectify any previous oversights and are detailed in the Corrective Action Plan (CAP).

In regard to the attorney services cited in the report:

- Attorney Services in the amount of \$40,500 - The District agrees that an RFP had not been issued in the past five years. However, the attorney was retained in order to preserve a consistency of legal services during multiple, complex collective labor negotiations, capital projects, tax certiorari cases and other integral components of district business. Ultimately,, the District issued a RFP for attorney services in the spring of 2018. The District has not requested that this finding be removed, but recommends that the comments be further clarified in the OSC report.

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Note 1
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Response to Recommendations

-
1. Review the procurement policy annually and make any recommendations to keep the policy current.
 - a. The District recognizes the importance of maintaining, reviewing and updating a relevant procurement policy. The District's *Policy 6700 and Purchasing and Policy 6700R, Purchasing Regulations* details specifics regarding procurement, including: objectives, competitive bidding, the bidding procedures, required documentation, dollar amount thresholds, etc.
 - b. Both documents were last reviewed and approved by the Board of Education on March 5, 2013.
 - c. The document is posted on the District's website for the purposes of transparency and access.
 - d. The document is reviewed annually with any employees that have the capacity for requisition requests and for approval rights.
 - e. The District will add an annual review of 6700 and 6700R by the District's policy committee.

 2. Ensure that compliance with the procurement policy is part of the claims approval process.
 - a. The District recognizes that the claims approval process is an important component of maintaining compliance of the procurement policy.
 - b. The District employs a Claims Auditor who reviews and approves all Purchase Order and Claims payments, all of which were previously approved by the Purchasing Agent prior to checks being issued. Both the Claims Auditor and the Purchasing Agent are appointed annually by the Board of Education.
 - c. The Claims Auditor makes an annual report to the Audit Committee.
 - d. The Claims Auditor has been provided with a current copy of Policy 6700 and 6700R for reference during the claims auditing process.
 - e. The Claims Auditor receives annual procurement training.

 3. Ensure that District Officials seek competition when procuring goods and services as required by District Policy.
 - a. District Officials will continue to follow District Policy in regards to both goods and services whenever applicable

The State Comptroller's Office spent a three to four month period at the Ichabod Crane School District evaluating our internal controls, policies, procedures and processes as applied to our general business practices and specifically the area of procurement. In addition to procurement, the audit included a risk assessment of payroll, capital projects, budget, cafeteria, transportation, fixed assets, inventory and other components of the business office. As

expected, there were no instances of fraud or negligence detected. Additionally, there were no findings in the risk assessment, a clear confirmation that the District maintains a strong financial position through the implementation of sound business practices. The District has thoroughly reviewed the Comptroller's findings and recommendations. Although we disagree on some points, the District will make any necessary adjustments as recommended. All adjustments will be outlined in the corresponding CAP. All items outlined in the CAP have already been completed. Based on the results of the report, the District assumes that OSC finds the level of adjustment necessary to be minor in scope. Furthermore, it reveals that OSC deems that the District routinely procures goods and services in accordance with policy and procedures in the most prudent and economical manner.

Again, we thank the State Comptroller's Office for its professionalism and thoroughness throughout the entirety of the audit process.

Sincerely,


Michael Vanyo

Appendix B: OSC Comments on the District's Response

Note 1

We amended the report to include District officials' explanations for these purchases. However, District officials were unable to provide documentation to support their assertions. Therefore, we did not remove these findings from our report.

Note 2

District officials could not provide documentation to support the vendor agreed to a price below the State contract. Furthermore, if one vendor was willing to sell below State contract price, others may also have been willing to do the same, possibly at a lower price. Therefore, we did not remove this finding from our report.

Note 3

When purchases are made without using a competitive process, District officials cannot have assurance that those goods and services were procured in the most economical way and in the best interest of taxpayers.

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 the District's purchasing policies and procedures to gain an understanding of the procurement process.
- We randomly selected 10 purchases totaling \$1.2 million from a total population of 47 purchases totaling approximately \$3.9 million from the general and capital funds that exceeded competitive bidding thresholds during our audit period. We reviewed the documentation associated with each purchase to determine whether officials sought competition in accordance with the District policy for competitive bidding requirements.
- We randomly selected 24 purchases totaling \$192,000 from a total population of 219 purchases totaling approximately \$1.5 million from the general and capital funds that required quotes in accordance with the District's policy. We reviewed supporting documentation to determine whether quotes were obtained in accordance with District policy.
- We judgmentally selected 20 professional service providers receiving payments totaling \$789,600 from a total population of 35 service providers receiving payments totaling approximately \$1.2 million from the general and capital funds. Providers were selected based on the dollar amount paid to the vendor. We reviewed supporting documentation to determine whether the District sought competition when awarding contracts for professional services in accordance with the policy.

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

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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