



Valley Stream Thirteen Union Free School District Purchasing

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-204



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

August 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Valley Stream Thirteen Union Free School District, entitled Purchasing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Valley Stream Thirteen Union Free School District (District) is located in the Village of Valley Stream, Nassau County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of 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. Annually, the Board appoints the Assistant Superintendent for Business to serve as the District's purchasing agent.

The District operates four elementary schools with approximately 2,190 students and 500 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$47 million, which were funded primarily by State aid and real property taxes.

Objective

The objective of our audit was to review the procedures used by the District to purchase goods and services that are subject to competitive bidding and quotes. Our audit addressed the following related question:

- Did District officials obtain competitive quotes and adhere to bidding requirements when procuring goods and services?

Scope and Methodology

We examined the District's purchasing practices for the period July 1, 2014 through December 31, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Purchasing

An effective purchasing process can help the District obtain services, supplies and equipment of the right quality and quantity from the best qualified and lowest-priced sources, in compliance with the Board policy and legal requirements. This process helps the District use resources efficiently and helps guard against favoritism, extravagance and fraud. General Municipal Law (GML) generally requires the Board to advertise for competitive bids on contracts for public works that exceed \$35,000 and on purchase contracts with expenditures that exceed \$20,000, and these amounts are reflected in the District's Board-approved purchasing policy.¹ Where there is one source from which to procure goods and services, competitive bidding is not required.

In addition, GML requires the Board to adopt written policies and procedures governing the purchase of goods and services that are not subject to competitive bidding requirements, such as items that fall under bidding thresholds. These policies and procedures should indicate when District officials must obtain quotations, outline the procedures for determining the competitive method that will be used and provide for adequate documentation of the actions taken.

District officials did not always obtain competitive quotes and adhere to bidding requirements when procuring goods and services. We selected a sample of 30² vendors who were paid approximately \$2.2 million between July 1, 2014 and December 31, 2015. District officials did not have bid documentation to support payments totaling \$757,700 made to two vendors for transportation, nor did they have documentation to support sole source payments totaling \$53,000 to two vendors for textbooks. While the Board adopted policies and procedures that provided guidance for purchases that do not require competitive bidding, District officials did not follow the policy and use competitive quotes to procure goods and services from 14 vendors paid a total of \$116,626.

Competitive Bidding – Of the 30 vendors that we reviewed, 10 were paid a total of \$2 million for purchases subject to competitive bidding. Purchases from six of the 10 vendors were in compliance with GML and District policy. However, the District paid two vendors for transportation services for which not all of the services were part of a cooperative bid. The remaining two vendors were paid for sole

¹ Purchases made using State or county contracts do not need to be competitively bid.

² See Appendix B for sample selection methodology.

source purchases of textbooks, but District officials did not have documentation to prove that they were in fact sole source vendors.

The District participates in a cooperative bid with other school districts for school transportation services. The District paid two vendors \$936,944 for school bus and van transportation services, citing the cooperative bid as the basis for procuring the services. However, only \$179,236 of the services provided were included in the cooperative bid contract. District officials were unable to establish that the balance of \$757,708 was part of the cooperative bid. For example, the District paid one of the vendors \$877,195 during the audit period of which \$712,094 was for transportation to schools for which the vendor did not submit bids and van services which were not solicited as a part of the bid. The transportation clerk explained that the transportation to schools and van services missing from the bid documentation were contracted in the 2002 solicited cooperative bid. Officials indicated that they thought they could extend these transportation contracts based on the original bid. We requested the bid documentation from 2002. However, officials told us that it had been discarded because they are only required to keep bid documentation for six years.

The District also paid two publishing vendors \$53,085 for textbooks without obtaining competitive bids. District officials told us that these textbook purchases were obtained from sole source vendors and, therefore, could not be competitively bid. District regulations require documentation to support that there is no possibility for competitive procurement if an item purchased is a sole source item. However, no documentation existed to support that the purchases were from sole source vendors. District officials stated that they were not aware that the regulations required them to have letters to support the sole source purchases.

Purchases Requiring Quotes – The District's purchasing regulations document the procedures required for purchases under bidding thresholds. District regulations require three verbal quotes for purchase contracts and public works contracts between \$3,000 and \$5,999. Verbal quotes must be documented, signed by the employee who obtained the quotes and include the date, description of the item or service, the price quoted, and the vendor's name and telephone number. Purchase contracts between \$6,000 and \$19,999 and public works contracts between \$6,000 and \$34,999 require three formal written quotes. Written quotes must be sent to the District on vendor letterhead and include the date, description of the item or service, price quoted, the quote's duration period, vendor contact name, telephone number and authorization signature.

We reviewed the payments made to a sample of 20³ vendors who were paid \$172,029 during the audit period. Six purchases totaling \$55,403⁴ were in compliance with District regulations. However, District officials did not obtain competitive quotes as required from 14 vendors who were paid a total of \$116,626 (68 percent of payments tested). For example, the District paid \$20,999 to a vendor for heating and ventilation services without obtaining and documenting three written quotes. District officials indicated that they did not obtain competitive quotes because the vendor had been doing business with the District for many years and they believed they were obtaining quality goods and services from this vendor. In another instance, the District paid \$14,115 to a vendor for installing three new flagpoles and removing two old flagpoles. District officials originally obtained three written quotes for installing and removing two flagpoles and selected the lowest bidder. However, after selecting the vendor, officials added the installation of an extra flagpole, with a higher unit price, without obtaining new quotes from each vendor to ensure that the selected vendor would still do the work at the lowest cost. The Supervisor of School Facilities and Operations explained that the former purchasing agent advised that the District could rely on the original quote submitted by the vendor to procure the additional flagpole because that vendor submitted the lowest quote initially.

Because District officials did not have evidence that they satisfied the bidding requirements for transportation services, document their verification of sole source vendors and obtain the proper number of quotes in the form required by District policy and regulations, they do not have adequate assurance that all goods and services were procured in a manner to ensure the most prudent and economical use of public money at the lowest possible cost to District residents.

Recommendations

The Board should ensure that District officials:

1. Solicit bids for bus and van transportation services that presently have no current bid documentation in place.
2. Identify all sole source vendors and obtain the required documentation such as sole source letters signed by an authorized contact person stating that the vendor is the only source for the given product and that such product cannot be obtained elsewhere.

³ See Appendix B for sample selection methodology.

⁴ \$20,817 for purchases from four vendors using State contracts and \$34,586 for sole source goods and services from two vendors

The purchasing agent should:

3. Ensure that District officials obtain quotes for purchases under bidding thresholds as stipulated by District regulations, prior to approving purchase orders.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Valley Stream Union Free School District Thirteen

Board of Education

585 North Corona Avenue

Valley Stream, New York, 11580

www.valleystream13.com

July 27, 2016

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Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken,

Valley Stream Union Free School District is in receipt of a draft copy of the audit report titled: Purchasing, Report of Examination 2016M-204. The District is in agreement with the recommendations made in the report and is already in the process of implementing policies and procedures to strengthen the purchasing procedures of the District. It is the District's goal to be fiscally responsible and to ensure that the District is receiving the most prudent and economical use of public monies at the lowest possible cost to the District taxpayers.

The District has implemented its Corrective Action Plan to address the recommendations made in the report as follows:

1. Adopted a purchasing policy that addresses professional services and required documentation for items that fall under bidding thresholds
2. Ensured that the purchasing agent receives documentation of verbal or written quotes or proposals for items purchased that fall under the bidding thresholds
3. Will solicit bids for all purchases exceeding the mandatory bid limits in accordance with General Municipal Law

We appreciate the feedback received and thank the examiners for their time and efforts. We welcome the opportunity to improve our operations related to purchasing.

Sincerely,

William P. Stris
President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We obtained and reviewed policies and procedures related to purchasing activities.
- We interviewed key officials and employees involved in the purchasing process.
- We sorted all payments made during the audit period by fiscal year based on the check date. For each fiscal year (2014-15 and 2015-16), we sorted the data by vendor and calculated total payments to each vendor. We removed, based on vendor name, all payments that appeared to not require competitive bidding. We eliminated all vendors with payments under \$3,000, the minimum amount requiring vendor quotes, resulting in a population of 125 vendors for the audit period. We determined, based on professional judgment, that a sample of 30 would sufficiently represent the population.
- We identified all vendors who received total payments of \$20,000 or more to obtain our population for bidding. From the population of vendors above \$20,000, we identified, based on vendor name, any vendor that appeared to provide public works services. If the identified vendor was paid more than \$35,000, they became a part of the public works bidding population. If under that amount, the vendor was removed and added to the population for purchases not requiring competitive bidding. We ultimately had a bidding population of 32 vendors, including three public works contracts. We judgmentally selected 10 vendors for the bidding sample, which included the three public works contracts and seven purchase contracts. The seven purchase contracts were selected using a random number generator.
- We determined that there were 93 vendors with payments under the bidding thresholds for the audit period. We selected a sample of 20 vendors for review using a random number generator.
- We obtained and reviewed claim packets and vendor files including purchase orders, invoices and supporting documentation such as bids, vendor quotes and State contracts for the selected sample to determine if District officials obtained and documented bids and quotes and selected the lowest offeror as required by the District's policy. If bidding and quotes were not required, we reviewed the claims and vendor files for sufficient documentation of the exemption.
- We verified the validity of the use of State contracts by searching the New York State Office of General Services contract database.
- We grouped payments that fell below bidding thresholds together by account codes to determine if the aggregate totals were above the bidding thresholds. We selected all account codes that exceeded \$20,000 and reviewed payments by selecting the vendors within each code that had the highest payments adding up to \$20,000. We reviewed claim packets and vendor files for each vendor to determine whether purchases were of the same nature and if bidding would have been required if purchases were not split among vendors.

- We reviewed and compared data for vendor and employee names and addresses to determine whether any employees were also being paid as vendors or appeared to have direct connections to any vendors paid by the District during our audit period.
- We reviewed Board member and District official conflict of interest forms to confirm that no Board member or official appeared to have interest in any contracts with vendors paid by the District during the audit period.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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