



Locust Valley Central School District Competitive Quotes

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-131



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Locust Valley Central School District, entitled Competitive Quotes. 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 Locust Valley Central School District (District) is located in the Town of Oyster Bay, 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 (Superintendent) 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 Board annually appoints two purchasing agents: the Assistant Superintendent for Business Affairs and Human Resources, who is responsible for purchases involving the bidding process; and the Purchasing Agent, who is responsible for approving purchases and converting requisitions into purchase orders.

The District operates six schools with approximately 2,100 students and 620 employees. The District's general fund expenditures for the 2014-15 fiscal year were \$77.6 million, which were funded primarily with State aid, sales and real property taxes and grants.

Objective

The objective of our audit was to examine the District's practices and procedures related to the purchase of goods and services. Our audit addressed the following related question:

- Did District officials obtain quotes for purchases that were not subject to the competitive bidding requirements in accordance with the Board's policy?

Scope and Methodology

We examined the District's purchasing procedures 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 C of this report. Unless otherwise indicated in this report, we selected samples for testing based on professional judgment, as it was not our 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

We discussed the results of our audit and recommendations with District officials, and we considered their comments, which appear in Appendix A, in preparing this report. Except as specified in Appendix

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

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.

Competitive Quotes

An effective procurement process helps ensure that goods and services of the right quality, quantity and price are purchased in compliance with Board and legal requirements, without the influence of favoritism, extravagance or corruption. Therefore, it is important that District officials seek competition when available. General Municipal Law (GML) requires advertising for competitive bids for purchase contracts that equal or aggregate to more than \$20,000 and for public works contracts that equal or aggregate to more than \$35,000.¹ GML also requires the Board to adopt a written procurement policy governing the purchase of goods and services that are not subject to competitive bidding requirements. This policy should indicate when District officials must obtain quotes, outline the procedures for determining which method will be used and provide for adequate documentation of the actions taken.

The District's purchasing policy, procedures and regulations outline various dollar thresholds for purchases requiring verbal or written quotes and the circumstances under which proposals or quotes are not needed, such as purchases made under a New York State or county contract. There is no requirement for obtaining quotes for purchase or public works contracts up to \$1,000. For purchase contracts ranging from \$1,001 to \$2,000, District staff must obtain two verbal quotes; contracts ranging from \$2,001 to \$10,000 require two written quotes; and contracts ranging from \$10,001 up to \$20,000 require three written quotes. For public works contracts ranging from \$1,001 to \$3,000, District staff must obtain two verbal quotes; contracts ranging from \$3,001 to \$10,000 require two written quotes; and contracts ranging from \$10,001 to \$35,000 require three written quotes.

District officials did not consistently enforce the purchasing policy's requirements for obtaining and documenting verbal and written quotes prior to purchasing goods whose costs exceeded policy thresholds. We reviewed 25 payments totaling \$103,468 made to 25 vendors during the audit period and found that the District paid \$20,262 to six vendors without obtaining the required number of verbal or written quotes. For example, District officials paid \$3,557 for stage backdrops for a play, \$3,217 for lumber and supplies and \$2,836 for sports clothing items without obtaining any other quotes.

The purchase order for the sports clothing stated that the vendor is the "Sole Provider and Manufacturer." We requested documentation

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

showing that the vendor is the sole provider of the items. The Purchasing Agent provided a letter from the vendor, stating that the vendor is the sole provider and manufacturer of the vendor's products. However, the vendor is not the only manufacturer of the clothing items purchased by the District. District officials used appropriate purchasing methods for seeking competition in accordance with District policy for the remaining 19 purchases.

Because District officials did not consistently adhere to the District's written policies and procedures for obtaining competitive quotes for goods and services not subject to competitive bidding, they do not have adequate assurance that the District is receiving the best price for the items purchased.

Recommendations

1. The Board should ensure that District officials and staff comply with the District's purchasing policy, procedures and regulations.
2. District officials should obtain quotes as required by the policy and maintain adequate supporting documentation for verbal and written quotes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

LOCUST VALLEY CENTRAL SCHOOL DISTRICT
22 HORSE HOLLOW ROAD • LOCUST VALLEY, NEW YORK 11560
(516) 277-5000 • FAX (516) 277-5098

ANNA F. HUNDERFUND, Ed.D.
SUPERINTENDENT OF SCHOOLS

TONI MELIAMBRO
ASSISTANT SUPERINTENDENT FOR BUSINESS
AFFAIRS AND HUMAN RESOURCES

June 1, 2016

Ira Mc Cracken, Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken,

We have reviewed the preliminary draft findings of your recent audit of the Locust Valley Central School District. As we discussed in our exit conference with you, following are our responses to items within your draft report.

We respectfully request that you remove the following payments from the list of seven vendor payments that totaled \$27,762, as noted on page six, paragraph three, for the reasons indicated.

The payment to John McGowan for \$7,500, check number 201747, was not a purchase but payment for concrete replacement due to damage by a contractor who was obligated to reimburse us for the replacement. The replacement work was done by a contractor who had been awarded the annual bid for District-wide patching and paving for the 2015-2016 school year.

See
Note 1
Page 9

The payment to Kranos Corporation for \$6,597.38, check number 206240, was for reconditioning of athletic equipment by a vendor who agreed in writing to match the prices of the New York Educational Data Reconditioning Bid. We had documented prior negative experiences of unreliability with the vendor who won the reconditioning bid.

See
Note 2
Page 9

The payment to Beardslee Transmission for \$1,905.42, check number 207750, consisted of numerous small items that ranged in price from \$7.60 to \$58.47 each. Because of the low cost of individual items, there was no reasonable expectation that the aggregate amount for the year would approach \$1,000.

See
Note 3
Page 9

Removal of the above items would result in a total of \$11,758.91 for four vendors, instead of \$27,762 for seven vendors, in paragraph three on page six.

See
Note 1
Page 9

We also respectfully request that you modify the wording of sentence one in paragraph three on page six by adding "for four vendors" to the end of the sentence, after "thresholds".

Similarly, we request that you modify the wording in the first sentence on page seven as follows (changes in red):

“Because District officials did not adhere to the District’s written policies and procedures for obtaining competitive quotes for goods and services not subject to competitive bidding for four vendor payments, they do not have assurance that the District is receiving the best price for these items purchased.

See
Note 4
Page 9

We thank you for the constructive comments regarding the adequacy of documentation for sole source purchases, and we implemented corrective procedures on March 1, 2016. As you noted in your report, the payment of \$2,837.60 to Boathouse Row Sports LTD was referenced as a sole source purchase. Please also note that the payments to Arrow Produce for \$2,147.05 and to Kenmark for \$3,557.00 were also considered sole source purchases, which is the reason that quotes were not attached.

See
Note 5
Page 9

Please feel free to contact me if you have any questions. Please confirm receipt of this letter.

Thank you.

Sincerely,

Toni Meliambro
Assistant Superintendent for Business Affairs and Human Resources

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The report was revised and the payment to one vendor totaling \$7,500 was subtracted from the exception total, resulting in six exceptions totaling \$20,262. As indicated in the District's response, the work was done by a vendor that was awarded a bid. This information should have been attached to the claim before it was approved for payment.

Note 2

A District official wrote on the purchase order that the vendor would meet a cooperative bid's pricing, but that is not what is stated in the vendor's letter. The vendor agreed in writing to extend the same pricing in 2014-15 that the vendor had charged the District in the 2013-14 school year. This vendor held a cooperative bid contract for 2013-14, but did not win the contract for 2014-15. There is no indication that officials obtained alternative quotes or compared the vendor's pricing to a cooperative bid price for 2014-15.

Note 3

This payment of \$1,905 was for the purchase of an inventory of more than 120 belts in various sizes for vehicular repairs. The prices of the individual belts ranged from \$7.60 to \$58.47, and the District purchased between two and six of each size belt. Although the purchase was broken out on three invoices over two days, the total purchase of like items exceeded the District's \$1,000 threshold for obtaining quotes. The purchases on the two invoices dated September 4, 2015, totaled about \$1,740. Further, the purchase order with the vendor was for \$3,000, which is an indication of the expected expenditure.

Note 4

District officials have no assurance that these were the only instances in which the District may not have obtained the best price as the suggested change would imply.

Note 5

None of the three vendors was actually a sole source as they were not the sole supplier of the purchased materials. Obtaining competitive quotes helps to ensure that the District gets the best price for goods and services purchased.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the Board’s purchasing policy, procedures and regulations that specify the treatment of purchases that are not subject to competitive bidding procedures. Our review included the examination of a table titled “Purchasing Exhibit” that explains the methods of competition that District staff should use for non-bid purchases.
- We reviewed the minutes of Board meeting proceedings to determine the dates of various Board appointments.
- We interviewed and observed District officials and employees who are involved in the purchasing process.
- We judgmentally selected 25 claims totaling \$103,468 for review. To select our sample, we obtained an electronic list of cash disbursement for all funds from the period July 1, 2014 through December 31, 2015. We narrowed the population by deleting vendors that would not require quotes, and filtered the data to include only claims between \$1,000 and \$19,999. From this population of 1505 claims totaling \$5.5 million, we used a random number generator to select 25 claims for review. We reviewed each claim in detail to determine if it was in compliance with the policy, procedures and regulations.

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.

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