

Scarsdale Union Free School District
Independent Accountant's Report On
Applying Agreed-Upon Procedures
June 7, 2018

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To the Board of Education and Audit Committee
Scarsdale Union Free School District
Scarsdale, New York

We have performed the procedures described in the following pages, which were agreed to by the Scarsdale Union Free School District (District), on the purchasing and disbursement functions of the District during the period January 1, 2017 through March 31, 2018.

The District's management is responsible for administering these functions.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on the District's purchasing and disbursement functions. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than the specified parties.

Cullen & Danowski, LLP
June 7, 2018

SCARSDALE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures
For the Period Ended March 31, 2018

Introduction:

This report is organized as follows:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

The District should submit the Corrective Action Plan (CAP) along with the respective Internal Audit Report via the NYSED Portal.

SCARSDALE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2018

PURCHASING AND DISBURSEMENTS

Background:

Section 104-b of the General Municipal Law (GML) requires local governments to adopt written policies and procedures governing the procurement of goods and services when competitive bidding is not required. This statute also requires local government personnel to document certain purchase-related decisions. In addition to provisions to ensure compliance with the GML Section 104-b, the adopted policies and procedures should identify authorization limits, the use of requisitions and purchase orders (PO) and the process to follow when purchasing goods and services.

Purchasing is a highly specialized activity in school administration. It is a process that seeks to obtain maximum value from each educational dollar spent for equipment, supplies and contracted services. Prudent purchasing practices help upgrade the quality of programs as well as control cost. The District has a purchasing agent whose responsibilities include reviewing and approving purchase requests to ensure that all legal requirements are met and that goods and services are purchased only after a full review of the requisition and at an appropriate cost. The Assistant Business Manager is the Purchasing Agent for the District, who was appointed to this position during the 2017-18 year. The Purchasing Agent is assisted by the Purchasing Clerk whose responsibilities include posting bids in the newspaper, receiving, reviewing, tabulating and entering bid information into the SMARTS system and mailing out POs to vendors. There is a full-time Accounts Payable Clerk who performs a review of the vendor invoices and enters all payments into the SMARTS system. Additionally, the District has a Claims Auditor who reviews all disbursements.

The District uses the SMARTS system as its financial accounting system. The purchase requisition manager module and the PO manager module are fully integrated into the financial accounting system. The SMARTS system provides certain levels of user controls and certain processing controls, which substantially reduce the likelihood of error in the processing of purchase requisitions and POs, e.g., the system is set up to forward purchase requisitions along a pre-established hierarchy of employees for review and approval depending on the type of expenditure and the department requesting the purchase. Only after the appropriate employees have approved a purchase requisition, will the request be able to be processed and approved as a PO by the Purchasing Agent.

There are authorized District employees (requisitioners) who are responsible for acquiring the needed goods or services for the staff working in their respective building or department. The requisitioners are given the appropriate access to the SMARTS system to enter purchase requests into the SMARTS system that require proper approval by an administrator prior to submission to the Purchasing Agent for review and approval. In addition, the requisitioners are given access to their specific budget codes only based on the responsibility of their respective administrator.

The District utilizes the scanning feature of the SMARTS system to scan all supporting documents for a PO into the SMARTS system. Additionally, when received and reviewed, the approved invoice is also scanned in as an attachment to the PO. The Claims Auditor is provided access to the SMARTS system to be able to view the PO, invoice and all supporting documents. The Business Office also prepares approximately 25-30 bids internally for certain materials and services required by the District. This includes bids for the following departments: food services, art, science, athletics, and buildings and grounds. The District also utilizes state contracts, BOCES' bids, and other cooperative bids for various types of purchases. In addition, the District will use requests for proposals (RFP) to select providers for certain services.

SCARSDALE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2018

Summary:

We have noted that the employees we interviewed demonstrate a positive attitude towards strengthening the procedures related to purchasing and disbursements. Overall, we found that the District has good business practices with requisitioning, purchasing, receiving and disbursements. In addition, the Business Office is active with undertaking initiatives to enhance and improve these processes. We also found that there is opportunity for further improvement related to the purchasing and disbursement processes, as noted in the findings section below. We recommend that the District consider implementing these recommendations to further strengthen internal controls and improve operational efficiencies related to purchasing and disbursements.

Procedures:

Our procedures related to purchasing and disbursements, as per the engagement letter dated July 1, 2017, were as follows:

- Review Board policies and District procedures related to the purchasing and disbursement functions.
- Interview Business Office personnel regarding policies, procedures and systems in effect related to purchasing and disbursements.
- Review the current requisitioning and purchasing processes with the new Purchasing Agent to identify the strengths within the procedures and to identify any opportunities for operational improvements and/or strengthening internal controls, both systematically and functionally.
- Perform a cost-benefit analysis related to completing in-district bids versus the use of state contracts, BOCES' bids, educational data, etc. based on a sample selection.
- Review the financial system user accounts and respective permissions related to purchasing and disbursements to ensure that users have the appropriate level of access based on their job duties.
- Review the purchasing related activity for vendor accounts during the period as follows:
 - Accounts with disbursements greater than \$100,000 – select a sample of 15 vendors.
 - Accounts with disbursements between \$20,000 and \$100,000 – select a sample of 15 vendors.
 - Accounts with disbursements between \$10,000 and \$20,000 – select a sample of 15 vendors.
 - Accounts with disbursements between \$500 and \$10,000 – select a sample of 15 vendors.
- For each of the 60 vendors selected, review the nature and frequency of transactions with the vendor and examine the purchasing and disbursement records for up to 3 judgmentally selected invoices to determine whether the applicable policies and procedures have been followed.

Findings:

Review of Board policies, District procedures and interviews with personnel noted:

- There are Board policies and standard processes covering the purchasing and disbursement activities. The District's Board Policy #6700 – *Procurement* covers the purchasing thresholds related to bids by stating that "The General Municipal Law requires that purchase contracts for materials, equipment and supplies involving an estimated annual expenditure exceeding \$20,000 and public work contracts involving an expenditure of more than \$35,000 will be awarded only after responsible bids have been received in response to a public advertisement soliciting formal bids. Similar procurements to be made in a fiscal year will be grouped together for the purpose of determining whether a particular item must be bid."

SCARSDALE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2018

- There are opportunities to improve the purchasing procedures to establish consistency and standardization regarding these activities. Refer to other findings below for more details.

Review of the current requisitioning and purchasing processes with the new Purchasing Agent found:

- The following items related to POs:
 - Pricing for purchases made from state contracts, BOCES' bids or other cooperative bids had not been electronically scanned into SMARTS as back up documentation to the PO for the Purchasing Agent and the Claims Auditor to review.
 - District bid numbers are not recorded on the PO for easy reference to confirm pricing.
 - Sole source or proprietary vendors had not been noted on the PO. Additionally, letters attached from the vendor indicating that they were the sole source provider for such item, were not attached.
- The Business Office rolls over in-district bids from one year to the next, if the vendor agrees to the same pricing. We found that the Board approved the in-district bid during the initial year; however, the District was not obtaining the required Board approval when the in-district bids were rolled over in prior years. We were informed that the Business Office has implemented procedures to obtain Board approval related to the in-district bids that are rolled over and this was already completed for the bids to roll over into the 2018-19 year.

Cost-benefit analysis related to completing in-district bids versus the use of state contracts, BOCES bids, educational data, etc. based on a sample selection noted:

- The District completes many in-district bids annually, which has been the practice for many years. We understand that the Business Office and new Purchasing Agent plan to assess each in-district bid going forward to determine if the time and cost of preparing a bid internally results in better pricing than using existing providers through state contracts, cooperative bids, national cooperatives, BOCES bids, etc.

Review of the financial system user accounts and respective permissions related to purchasing and disbursements to ensure that users have the appropriate level of access based on their job duties noted:

- Review of the SMARTS system administrator's user permissions found that the setup is appropriate. We noted that only the system administrator has permissions to add user accounts. There are standard procedures to decide if any new employees need access to the SMARTS system and, if so, to determine the permissions to be granted based on the employee's job duties.
- Our review of a sample of user accounts noted that the permissions were appropriate based on the employee's job duties.
- The Purchasing Agent and District Treasurer have the ability to add or change vendors in the system. Further review found that the District addresses this conflict by performing a comparison of all new vendors to the standard New Vendor Forms. Although this annual process hasn't been completed during the past few years, the District will reinstate this process by performing this reconciliation during the summer of 2018.

Review of the purchasing related activity for the selected 60 vendor accounts during the period noted:

- There were no exceptions related to the payment amounts based on the sample of disbursements that we reviewed during our engagement. The District has appropriate procedures to verify that invoice amounts agree with the check amounts. This matching process is performed by the Accounts Payable Clerk and the Claims Auditor prior to releasing the vendor payments.

SCARSDALE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2018

- The procedures related to the documentation that is scanned or notes entered into the SMARTS system could be improved. There were many instances where we were unable to ensure that the District's purchasing requirements were followed during the requisition process when we reviewed the supporting documentation in the SMARTS system. We needed to obtain key information that was not included in the SMARTS system to complete our review. This resulted in inefficiencies with the verification process that required additional time to retrieve these documents including bids numbers, quotes, pricing or other information to verify compliance. In some cases, this verification was unable to be completed during our testwork and we also found information lacking from the SMARTS system as follows:
 - There was 1 instance where the vendor did not provide support for the materials purchased to support the mark-up percentage detailed in the bid.
 - There was 1 instance where the square footage information was not included to support the pricing amount.
 - There was 1 instance where the vendor included additional work; however, there was no detail related to the fees to be able to agree the pricing to the bid.
 - There were 2 instances where items were purchased from a cooperative bid; however, the pricing could not be located.
 - There were 4 instances where the same vendors have provided services for many years, but there was no contract in place to be able to verify the vendor's prices charged to the District.
 - There was 1 instance where the District contracted with a wireless service provider and we were informed that the services were purchased from a state contract. However, we were unable to agree the pricing charged to the District to the state contract.
 - There were items purchased from a vendor that were not included in the in-district bid. Our review of another payment to this vendor, found that there was a lack of detail on the invoice or quote to be able to agree the pricing to the bid.
 - There were 2 vendors selected where quotes were not solicited as required. We were informed that the product from one of these vendors is superior to other vendors' products and the second vendor is used because it is a sole source. However, this information or documents are not scanned or noted into the SMARTS system.
 - There were instances when the requisitioner had difficulty obtaining the 3 required quotes from vendors and was only able to obtain 1 or 2 quotes. However, this information was not included in the notes or scanned as a memo into the SMARTS system.
 - There were 2 instances when only the quote from the selected vendor was included in the SMARTS system, rather than scanning all 3 quotes that were obtained.
 - Pricing from state contracts or cooperative bids, when feasible, is not always scanned into the SMARTS system.
 - Sole source/proprietary letters from vendors, stating that they are the only provider of such item, are not scanned into the SMARTS system.
- There were 15 instances of confirming POs, where the goods or services were provided prior to the creation of the PO. We also found that there is no requirement for the requisitioner to provide an explanation related to the confirming PO.

SCARSDALE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2018

Recommendations:

We recommend that the District consider implementing the following to further improve internal controls and operational effectiveness related to purchasing and disbursement activities:

1. Develop a purchasing handbook that covers the requirements related to purchasing activities. This would facilitate the creation of standard practice to be followed by the requisitioners. This would also establish consistency to be followed by the employees regarding the purchasing processes. We understand that the District plans to have the handbook in place during the 2018-19 year. Some of the key items that should be addressed in the handbook include:
 - a) Reference to the Board policies and regulations related to purchasing.
 - b) Required documentation to be scanned and submitted to the Purchasing Agent. Define the specific records to be provided by the requisitioners that would ensure compliance with the District's purchasing policy, regulations and protocols.
 - c) Define the processes related to bids, quotes and contracts. The requisitioners should scan the pricing information related to the items purchased, when feasible, and should record the bid number on the PO.
 - d) Require the requisitioner to ensure that the items purchased are included in the bid.
 - e) Require the requisitioner to scan all quotes that are obtained.
 - f) Require the requisitioner to include notes and a letter from the vendor when the purchase relates to a sole source vendor. The letter should be scanned into the PO as supporting documentation.
 - g) Require that all invoices for projects with time and material bids have third party invoices attached to substantiate any mark-up percentage detailed in the bid. In addition, this documentation should be attached to the invoice.
 - h) Require the requisitioner to provide an explanation if there is a confirming PO. This documentation should be scanned into the PO.
 - i) Procedures related to blanket POs to create efficiencies by using an estimated annual amount paid to a vendor to reduce the number of instances to increase a PO or create a new PO for the same vendor.
 - j) Define the required information to be included when the requisitioner creates the PO. This may include adding notes into the SMARTS system and may not necessarily be included in the printed PO.
 - k) Reimbursements to employees related to conferences, athletics, professional development, etc.
2. Establish procedures to ensure that the Board approves all in-district bids that are rolled over from one year to the next. Additionally, when multiple vendors send in a bid, a letter should be prepared and sent to the vendors that were not awarded the bid. These documents should be filed in the bid file.
3. Review the process related to purchases from a local vendor not on a bid or state contract when the amount exceeds the District's purchasing policy for amounts allowable without soliciting quotes.
4. Develop procedures to ensure that all invoices from the vendors include a breakdown of costs between labor and material to allow for a comparison of pricing on the invoice to bid pricing.

