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**Chappaqua Central School District
Intensive Review of Purchasing, Accounts Payable,
and
Capital Projects**

Fulfilling the State Mandate for the year ending June 30, 2021

Chappaqua Central School District

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TOBIN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS, PC

To the Board of Education
Chappaqua Central School District
Chappaqua, New York

We have performed an intensive review in the areas of Purchasing, Accounts Payable, and Capital Projects for the Chappaqua Central School District (the District). The purpose of this engagement is to ensure compliance with applicable New York State laws and regulations under the Fiscal Accountability Initiative for the fiscal year ended June 30, 2021.

Our report provides results of attribute testing performed on the selected areas. In addition, our report provides observations and recommendations for any areas for which we believe improvements can be made to existing processes and internal controls.

We are pleased to have had the opportunity to serve you and look forward to reviewing this report in detail with you. We would also like to thank the Board of Education and the employees of Chappaqua Central School District for their time and assistance during our engagement.

Sincerely,

Tobin & Company
Certified Public Accountants, PC

Purchase, New York
February 15, 2021

At the request of the Board of Education of the Chappaqua Central School District (“the District”), we performed a Risk Assessment of various District business procedures and activities. Using our Risk Assessment report (dated September 8, 2020), the Board of Education engaged our firm to perform an intensive review of Purchasing, Accounts Payable, and Capital Projects.

Our intensive review of Accounts Payable and Purchasing consisted of the following:

- 1) Interview staff members responsible for approving purchase orders, generating payments, and approving payments.
- 2) Review Board policies for Purchasing and Accounts Payable.
- 3) Review a sample of warrants noting proper review and approval, and check sequence.
- 4) Review a sample of claims paid to determine if proper approvals and backup for claims were present.
- 5) Review a sample of vendors for which total disbursements were in excess of bid limits to determine if purchases through these vendors were properly bid.
- 6) Review bids for the current school year to determine if the bid process was properly documented.
- 7) Review recent Claims Auditor reports for noted exceptions.

Our intensive review update of Capital Projects consisted of the following:

- 1) We performed an update to our previous Capital Projects review.
- 2) Detailed interviews with key employees relating to the processes for Capital Projects.
- 3) Review of budget to actual costs.
- 4) Review a sample of vendor invoices, contracts, and change orders and compare to best practice internal control attributes.
- 5) Review a sample of payments to vendors and compare to best practice internal control attributes.

Key personnel interviewed during our process were as follows:

Assistant Superintendent for Business – *John Chow*

Treasurer – *Cathleen Lynch*

Purchasing Agent – *Michael Trnik*

Accounts Payable Clerk- *Christine Brundage*

Accountant – *Alex Djordjevic*

Director of Facilities / Construction Manager – *Joseph Gramando*

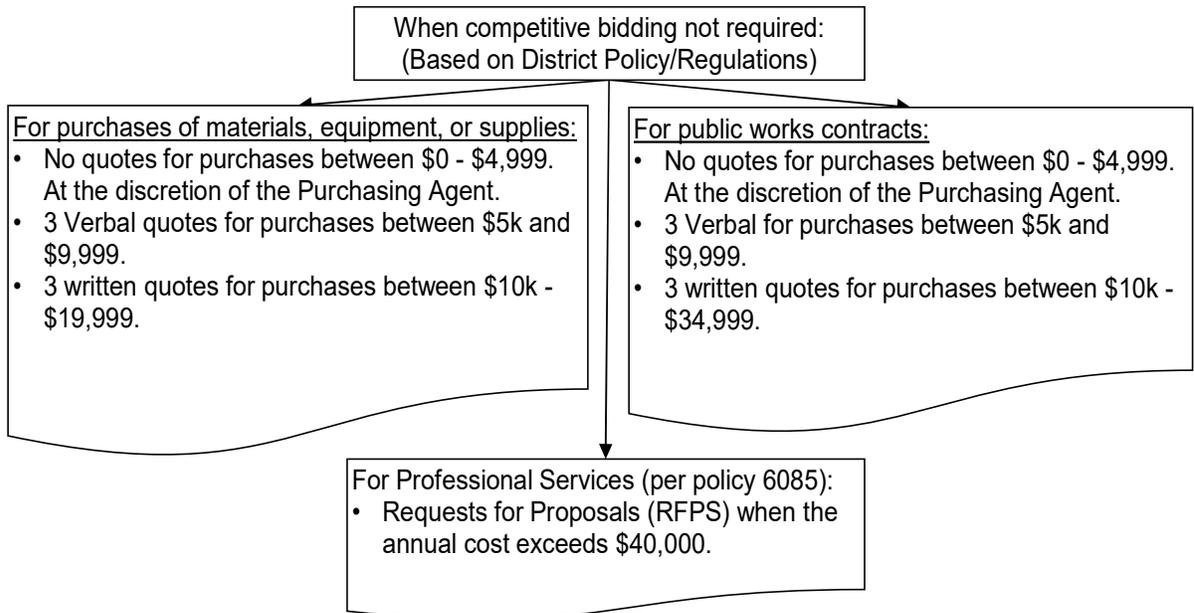
Claims Auditor – *Jonathan Ross*

Chappaqua Central School District

Purchasing and Accounts Payable - Observations and Recommendations

Purchasing Regulations

New York State Municipal Law requires competitively bid contracts for all vendors to which the District will disburse in excess of \$20,000 (for materials, equipment, and supplies), or \$35,000 for public work. When competitive bidding is not required, the District still must select vendors in a manner that ensures economical use of funds.



The District is not restricted to awarding contracts to the lowest quoted price, or lowest bidder. However, if the District does award a contract to a vendor other than the lowest responsible bidder, the District must be able to justify why the awarded vendor represented the “best value.”

The District is required to maintain documentation of both quotes and formal bids and must be able to present these items during the claims audit process in order for disbursements to be approved.

There are instances when competitive bidding is not required. These exceptions include when a vendor is under a BOCES contract, county contract, state contract, GSA federal contract (for technology and security only), a national cooperative contract in accordance with applicable law, or a sole source vendor. The District also has the ability to “piggyback” other New York district contracts when applicable.

Existing Controls

- 1) Many District purchases are made using existing State or BOCES contracts.
- 2) When bids are not necessary, quotes are obtained in accordance with regulations.
- 3) The Purchasing and Accounts Payable staff are knowledgeable of purchasing regulations, and the regulations are available on the District website.
- 4) For sole source vendors, the District requires an official letter from the vendor stating that they are the sole source provider. The Purchasing Agent performs his own independent check to confirm sole source status. In addition, the Board approves each sole source provider.
- 5) In certain circumstances, legal counsel may also be consulted.

Chappaqua Central School District

Purchasing and Accounts Payable - Observations and Recommendations

Test Results

During our review we randomly sampled vendors for which disbursements exceeded the threshold for which competitive bidding was required. We reviewed contracts to determine if the vendors were on New York State, BOCES, or national cooperative contracts. For vendors who were not on State, BOCES, or national cooperative contracts we reviewed backup to determine if the contract was awarded based on a properly conducted bidding process.

- **No exceptions were noted.**

Competitive Bidding

When competitive bids are required, the District must follow strict guidelines. Potential bidders must be notified through a "Notice to Bidders" posted in a local newspaper and District website. Potential bidders have at least 5 days to respond. The date and time of the bid opening must be specified, and bids must be date stamped when received but not opened before that specified time. At least two District employees must be present for the opening of bids. Once opened, bids must be tabulated and analyzed to determine the lowest responsible bidder.

Existing Controls

- 1) Bids are not accepted if they are not sealed.
- 2) Bids are opened at the specified time.
- 3) Formal bid tabulations are prepared to recap the bids opened.
- 4) Signed and certified attendance sheets are maintained at bid openings.
- 5) The Purchasing Agent maintains a calendar of expiring bids.

Test Results

During our engagement, we reviewed recent bids that were prepared by the District. These bids were for HVAC services, on-site technology services, solid waste services, roof replacement, and waterproofing. During our review of these bids, we examined documents for indication of advertisements, formal bid tabulations, bid specifics, list of awarded items by vendor, copies of the vendor bids, and attendance sheets for the bid openings.

- **We noted no exceptions.**

Observation and Recommendation

- 1) Observation: The District does not use a bid document checklist.
Recommendation: The District should consider utilizing a bid document checklist to both organize its procurement folders and assist in ensuring that all required steps are accounted for. We provided the District with a sample checklist.

Chappaqua Central School District

Purchasing and Accounts Payable - Observations and Recommendations

Approval of Purchase Orders

Requisitions can be entered into the District's accounting system by a number of nVision users. Once these requisitions are entered, they are subjected to multiple electronic approval levels within the system. The first approval is the building level approval (for teachers or school building staff requisitions), or department head approval for departments such as Special Education. The first level approvals ensure the direct supervisors of the requisitioners believe the purchases to be necessary. Once approved at that level the requisition must be approved by the Purchasing Agent, which then allows the requisition to be converted to a Purchase Order. Once a purchase order is created with all of its approvals the purchase can actually be made.

Existing Controls

- 1) There are multiple levels of approval for purchase requisitions.
- 2) The Purchasing Agent's password is required in order to convert a requisition to a purchase order.
- 3) Any requisition that does not have the appropriate backup is immediately denied and sent back to the originator.

Generating Disbursements and Approval of Claims

Once orders are received, or services have been provided, vendor invoices are matched up with District purchase orders as well as receiving copies from the requisitioner, proving the goods or services were in fact received. Warrants are prepared by fund on a weekly basis for all vendor invoices that have been received and all accompanying documentation which is present. The District's Claims Auditor reviews and approves these warrants before the checks are mailed. Files are generated and uploaded to the District's banks for the purpose of providing them with a list of valid checks that may be negotiated (through the Positive Pay system). The District's bank then uses this to match those presented for payment. Any checks that do not agree are flagged for review and approval. Checks are printed by the Accounts Payable Clerk using the approved signature of the District Treasurer.

According to School Law, the Claims Auditor has the exclusive authority to audit claims, and allow or reject all accounts, charges, claims, or demands against the district. The Claims Auditor reviews all disbursements made by the District before they are released. During this review, a number of items are considered, including but not limited to the following:

- Reviewing vendor contracts to ensure invoices are following proper terms.
- Ensuring all required approvals were obtained.
- Ensuring the invoices, purchase orders, and disbursement amounts match.
- Checking for correct vendor names and remittance addresses.
- Checking clerical accuracy of invoices and amounts paid.
- Ensuring sales tax is not paid by the district.
- Ensuring Purchase Order dates precede invoice dates.
- Ensuring there is evidence of the receipt of goods and services.

Chappaqua Central School District

Purchasing and Accounts Payable - Observations and Recommendations

Existing Controls

- 1) The District uses positive pay, which informs the banks in advance of disbursements that are authorized by the District.
- 2) Disbursements will not be generated until a receiving copy of the purchase order is received.
- 3) The disbursement checks must be signed by the Treasurer, or Deputy Treasurer, which requires their passwords.
- 4) The Claims Auditor reviews warrant and check sequence to ensure all claims have been reviewed.
- 5) The Claims Auditor prepares a monthly report with any findings to the Board of Education.
- 6) The Claims Auditor is given a list of authorized signatures (with signature examples) to match against claims to ensure the correct person is approving claims.
- 7) Employee reimbursement claims require a preapproved purchase order.

Notable New Controls

- 1) All Chase disbursement accounts now have Positive Pay and ACH debit blocks to reduce the risk of fraudulent activity. This includes the General Fund, Payroll Account, School Lunch, Special Aid, Trust and Agency, Capital Fund, and Extraclassroom accounts.
 - a. The District moved its Special Aid and Capital disbursement accounts from TD Bank to Chase to facilitate Positive Pay. A Capital Fund disbursement account will remain with TD Bank until the completion of the Bond projects.
- 2) After receiving written approval from the External Auditors, the Treasurer has created unique general ledger subcodes for Foundation Grants in the Special Aid fund to track grants individually in the system. This was previously handled by having a single amount on the Trust and Agency balance sheet and details were tracked on a spreadsheet.
- 3) After getting written approval from the External Auditors, the Treasurer consolidated multiple scholarship bank accounts (unless prohibited by scholarship guidelines) into a single account and created individual general ledger subcodes within nVision to track the various scholarship accounts. This was previously handled by having a single amount on the Special Purpose balance sheet and details were tracked on a spreadsheet.
- 4) In the past, there were instances of manual checks. The Treasurer has moved the processing and printing of all disbursements to nVision.

Test Results

Claims Packet Review

During our engagement we randomly selected 37 claims for review. We reviewed for the following:

- 1) Purchase order signed by Purchasing Agent.
- 2) Purchase order date precedes invoice date.
- 3) Presence of signed receiving copy or approved invoice by designated supervisor.
- 4) Amount on check agrees to invoice.
- 5) Invoice pricing agrees to contract pricing.
- 6) Proper quotes, bids, or other backup attached, or bid or contract number attached (where applicable).
- 7) Purchases in accordance with Municipal and District policy.
- 8) Packet signed by Claims Auditor.

Chappaqua Central School District

Purchasing and Accounts Payable - Observations and Recommendations

We noted the following:

- **While we did note that the Claims Auditor does sign off on the weekly claims warrant, we noted no evidence of signatural approval on individual claims packets signifying proof of review. It is important to note that we do believe the Claims Auditor is reviewing all claims packets.**
- **We noted an instance where Purchase Order increases exceeded the statutory bidding threshold of \$35,000 for paving public works contracts.**
 - **In addition, we noted instances where requests for increases were sent by e-mail from a Buildings and Grounds Department Secretary and not a Supervisor or Administrator.**

Employee Reimbursement

During our engagement, we selected a random sample of employee reimbursement claims to ensure compliance with District policy.

- **No exceptions noted.**

Cell Phones

During our engagement, we reviewed three recent Verizon Bills paid by the District that covers those employees that have been given District cell phones.

- **At the time of our review, the District updated its Regulation 6025, which lists Board approved positions authorized for District owned communication devices. The reviewed invoices were in accordance with this policy.**

Warrant Review

During our engagement we also reviewed recent warrants to ensure they were reviewed and approved to be paid by the Claims Auditor, and whether or not there were gaps in check sequences.

- **We noted no exceptions.**

Observations and Recommendations

- 1) Observation: **(Best Practice)** While we did note certification of the claims warrant by the Claims Auditor, we did not note signatural approval on individual claim packets, which is a common best practice.
Recommendation: We recommend the Claims Auditor initial, signoff, or stamp each individual claim packet as additional proof of review.
- 2) Observation: The District does not have a policy for purchase order increases. Currently, it is at the discretion of the Purchasing Agent, with approval of the Assistant Superintendent for Business.
Recommendation: The District should create a policy and threshold for when purchase order increases require board approval. In addition, General Municipal Law stipulates that purchases in excess of \$35,000 for public works contracts and \$20,000 for goods require competitive bidding. Should purchase order increase requests exceed these amounts, the District should justify and document its reasons for not going out to bid.

Chappaqua Central School District

Purchasing and Accounts Payable - Observations and Recommendations

- 3) Observation: During our testing, we noted instances of purchase order increase requests being initiated and submitted by e-mail from staff other than a designated Supervisor or Administrator.

Recommendation: The District should develop a purchase order increase request form that includes detailed information such as the vendor, account code, increase amount, and justification and reasoning behind the request. In addition, this form should be signed by the Principal or Administrator, and the Purchasing Agent. We have provided the District with a sample form.

Chappaqua Central School District

Capital Projects – Observations and Recommendations

Capital Projects

In addition to our Intensive Review of Purchasing and Accounts Payable, we also performed an updated review of Capital Projects. Significant changes since our last review consist of the following:

- Termination of the District’s High School General Contractor and Construction Manager.
- Authorized the Director of Facilities to perform the services of Construction Manager for the remaining construction at Horace Greeley High School and the Chappaqua Library.

While work is still ongoing due to delays relating to the former General Contractor and Construction Manager, the District is on the verge of completing its \$42.5 million Capital Bond projects. Below is a summary of cumulative expenditures compared to its original estimated bond amount:

	(as of 5/13/21)		
	Actual	Budgeted	
	Expenses	Costs	Difference (1)
Horace Greeley High School	\$ 25,209,338	\$ 26,703,879	\$ 1,494,541
Bell Middle School	6,349,233	5,236,023	(1,113,210)
Seven Bridges Middle School	2,469,304	1,603,416	(865,888)
Grafflin Elementary School	2,115,369	1,883,271	(232,098)
Roaring Brook Elementary School	1,392,698	1,586,572	193,874
Westorchard Elementary School	1,773,579	1,773,127	(452)
Chappaqua Public Library	1,525,595	1,700,000	174,405
Other	1,875,530	2,013,712	138,182
	<u>\$ 42,710,646</u>	<u>\$ 42,500,000</u>	<u>\$ (210,646) *</u>

*Work still ongoing - expenses subject to change. There is currently approx. \$1.3 million encumbered.

(1) At the beginning of the engagement, we were informed that actual costs will be greater than the Bond amount due to the exclusion of furniture, fixtures, and equipment (FFE) in original costs.

Existing Controls

- The District holds weekly construction meetings. The Construction Manager (Director of Facilities), Architect, General Contractor, Electrician, and Plumber are all in attendance and walkthroughs are performed at the construction site.
 - Sign in attendance sheets are maintained as well as meeting minutes.
- The District works with their Architect, KG&D, and a financial advisory company, Bernard P. Donegan, Inc., with its state filing processes.

Chappaqua Central School District

Capital Projects – Observations and Recommendations

Observation and Recommendation

1) Observation: While the District has weekly construction meetings, no financial information is discussed.

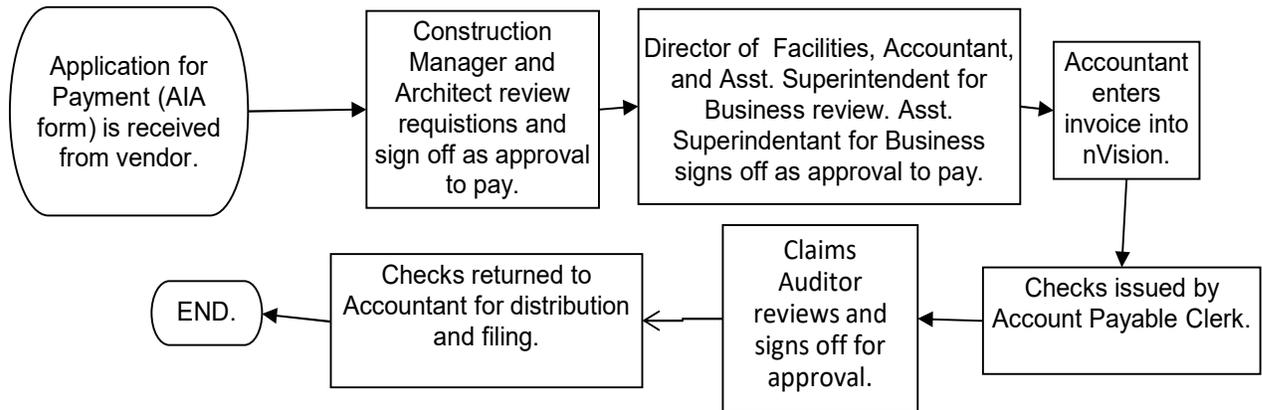
Recommendation: The District should work with its Accountant to develop monthly financial reports that can be used at these construction meetings. This will assist the District in monitoring the budget-to-actual costs at weekly meetings.

As part of our review, we selected a mix of projects relating to the capital bond as well as non-bond projects to gain a better understanding of current processes and controls surrounding payments and change orders. The projects reviewed consisted of the following:

- Chappaqua Library (2016 Bond)
- Horace Greely Educational (2016 Bond)
- Seven Bridges Infrastructure (2016 bond)
- Bell Side Field (2016 Bond)
- District Wide Security Projects related to all five schools (non-bond)

Vendor Payments

The process for vendor payments is as follows:



Existing Controls

- The Claims Auditor reviews the Application for Payment (AIA) packets.
- Applications for Payment require certification from the Assistant Superintendent from Business, Construction Manager, and Architect prior to payment.

Test Results

We sampled various payment applications for the above projects. We reviewed for the following attributes:

- a. Application for payment exists and is signed by the Contractor and Architect.
- b. Check amount matches the application for payment.
- c. Recalculate retainage for accuracy.
- d. The payment packet was reviewed and approved by the Claims Auditor.
- e. Release of liens was received before final payments.
- f. Final inspections were performed before final payments.

We reviewed payments totaling approximately \$5,369,000. **No exceptions were noted.**

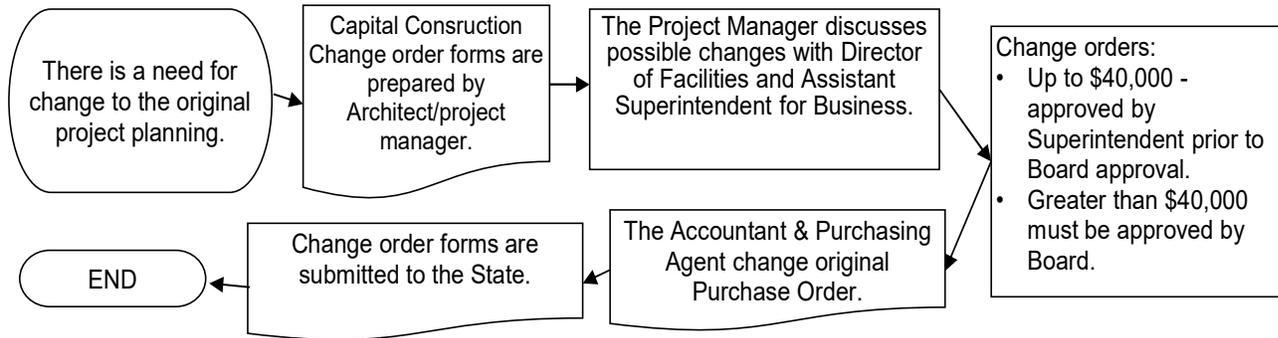
Capital Projects – Observations and Recommendations

Observation and Recommendation:

- 1) Observation: We noted instances where a vendor submitted Applications for Payments that included multiple projects and multiple purchase orders. The combination of multiple projects on one application can lead to confusion and difficulties of correctly tracking projects. In addition, it could lead to miscalculations of each retainage schedule. Recommendation: To promote best practice, the District should stress that vendors should not combine multiple projects and amounts due on the same Application for Payment.

Change Orders

The process for change orders is as follows:



Existing Controls

- All change orders must be either approved by the Superintendent (if under \$40,000) or by the Board of Education.
- Prior to a change order, the District has recently begun determining if the necessary work can be done in house by the Facilities Department. This is done in an effort to prevent an abundance of change orders and significant cost increases to capital project budgets.

Test Results

We reviewed 35 change orders from the selected projects totaling approximately \$917,185. We noted the following:

- **A change order for the District Wide Security Projects included approximately \$1,134 in sales tax. School districts are exempt from paying sales tax.**
- **While they were approved by appropriate District officials, seven change orders relating to the Bell Side Field project, totaling \$92,076, were not yet filed with NYSED at the time of our review.**
- **While they were approved by appropriate District officials, we noted three change orders that exceeded the statutory bidding threshold of \$35,000 for public works contracts. (See observation 1 on subsequent page).**

Chappaqua Central School District

Capital Projects – Observations and Recommendations

Observations and Recommendations:

- 1) Observation: As noted in our findings, three change orders exceeded the statutory bidding threshold of \$35,000 for public works contracts.
Recommendation: SED guidelines stipulate that change orders in excess of the bidding thresholds must include on the change order certificate an explanation of why it is in the best interest of the school district and the public to award a change order instead of putting the work out to public bid. The District should begin implementing this recommendation to be in accordance with New York State guidelines.

- 2) Observation: While the Claims Auditor is given copies of the board agenda noting change order approval, he is not given the approved change order certificate with the AIA form.
Recommendation: Change order certificates should be included with AIA forms when presented to the Claims Auditor for approval. This additional control could assist the District in preventing the payment of items such as sales tax.

Conclusion

While we did note many valuable controls in place, we believe that the recommendations provided in this report would further reduce the risk of error or misappropriation in the areas of Accounts Payable, Purchasing, and Capital Projects.

We encourage the Board of Education of the Chappaqua Central School District to contact us at any time for our guidance on how to implement these recommendations, as well as any other controls they wish to put in place.