

**Pelham Union Free School District**  
**Independent Accountant's Report On**  
**Applying Agreed-Upon Procedures**  
December 14, 2015



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

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

We have performed the procedures described in the following pages, which were agreed to by the Pelham Union Free (District), solely to review the financial operations of the Facilities Department for the period January 1, 2014 through September 30, 2015.

The District's management is responsible for administering this area.

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 audit, the objective of which would be the expression of an opinion on the District's financial operations of the Facilities Department. Accordingly, we do not express such an opinion. 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 those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose.

*Cullen & Danowski, LLP*

December 14, 2015

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures**  
For the Period Ended September 30, 2015

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**Introduction:**

This report is organized as follows: categorized by function (i.e., Facilities operations and Capital Projects Fund activities, and there are five sections under each function consisting of:

- 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.

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing anything).

***Submission Information – Mail & Email***

New York State Education Department (NYSED)  
Office of Audit Services (OAS)  
89 Washington Avenue  
Room 524 EB  
Albany, NY 12234  
[Fsanda133@mail.nysed.gov](mailto:Fsanda133@mail.nysed.gov)

***Contact***

Office of Audit Services  
(518) 473-4516

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
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**FACILITIES**

**Background:**

The Facilities operations of the District are managed by the Director of Facilities who reports to the Assistant Superintendent for Business. These administrators have been with the district for over 20 years and 10 years, respectively. They are responsible for the day-to-day operations of the Facilities Department, as well as the management of the Capital Projects Fund.

Total Facilities spending for the 2013-14 and 2014-15 fiscal years was \$4,612,043 and \$5,049,731, respectively. Capital Projects Fund expenditures for the 2 years were \$348,266 and \$881,739, respectively (note this includes the “transfer out” of the Capital Projects Fund).

In addition to the standard Facilities Department budget codes (1620 and 1621), the District uses the Community Services code (7140) to account for certain costs associated with maintaining and operating facilities shared by the community.

Prior to the 2015-16 budget year, the District would develop the budget with limited funds for Facilities related projects. If funds became available during the year, budget transfers were made in accordance with Board policy to allow funding for certain projects. These projects were generally completed after the end of that fiscal year, and the funds were encumbered as of the fiscal year. Detailed project information was not attached to the budget transfers sent to the Board of Education; however, the work to be done was documented and discussed during the Facilities and Technologies Committee meetings and during Board of Education meetings.

This budget process was modified for the 2015-16 fiscal year. The Facilities Department budget included a list of Facilities projects to be performed during the course of the year. The Facilities budget amount was increased by \$750,000 to have these specific projects funded (budget funds were re-allocated from other budget codes).

As noted above, in the past, there were significant amounts of funds encumbered at year end since work that was authorized through the budget transfers in the spring was actually performed in the summer.

Historically there has been no formal accounting for, nor reporting, on a project-by-project basis for Facilities projects recorded in the General Fund. The expenditures were recorded in the Facilities Department account codes. For the current fiscal year, the Treasurer is monitoring the 2015-16 activity on a project-by-project basis.

The District utilizes third party consultants to assist in the monitoring of projects. The third-party consultants were selected through a request for proposal (RFP) process. The third-party consultant reviews invoices prior to payment.

The District primarily makes purchase for goods and services for the Facilities Department using District time and material bids, and using Ed Data bids.

**Summary:**

Our review identifies areas for potential improvement in the Facilities related purchasing and invoice approval processes. Addressing the more significant issues will require a thoughtful review of the related issues and policies and procedures implemented so that the District can operate effectively and efficiently while providing appropriate information to the Board of Education.

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**Procedures:**

We performed a review of the operations of the Facilities Department as follows:

- Interviewed appropriate personnel regarding internal controls over staffing, time reporting, purchasing and invoice approval, budget preparation, budget monitoring, capital projects administration and other areas of responsibility within the Facilities Department, documented the various systems and identified key internal control attributes for testing.
- Examined payroll records of the Facilities Department personnel for two (2) pay periods during the period January 1, 2014 through September 30, 2015, and on a test basis compared to source documentation.
- Reviewed the budget for 2014-15 and compared to the 2014-15 budget and the 2015-16 budgeted expenditures. Obtained explanation for unusual variances.
- Reviewed purchase orders (PO) for 3 of the 10 largest Facilities Department vendors during the year, and examined invoices related to those POs to determine if policies and procedures of the District had been followed.
- Selected 25 additional disbursements from the Facilities Department accounts, and reviewed supporting documentation to determine if applicable purchasing and disbursement policies and procedures had been followed.

**Findings:**

Review of payroll records of the Facilities Department personnel for two (2) pay periods during the period January 1, 2014 through September 30, 2015, found:

- No exceptions noted. All items tested were traced back to bargaining unit contracts or Board approvals.

Review of budget for 2014-15 compared to the 2014-15 budget and the 2015-16 budgeted expenditures, found:

- During our testing we did not identify any miscoding of expenses.
- As noted in the background section above, the District's procedure had been to prepare and process budget transfers to cover year end Facilities projects. All budget transfers were Board approved, although a budget transfer for June 2015 was not presented to the Board of Education until September 2015. Our understanding is that this was due to administrative oversight.

Reviewed 25 disbursements and POs for 3 of the 10 largest Facilities Department vendors during the year, and examined invoices related to those POs to determine if policies and procedures of the District had been followed.

We noted the following related to the District's purchasing policy:

- We found that the District can improve its policies and procedures governing the procurement of goods and services when competitive bidding is not required. In addition to provisions to ensure compliance

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with GML Section 104-b, the adopted policies and procedures should identify authorization limits, the use of requisitions and POs and the process to follow when purchasing goods and services.

- We found that the District's purchasing policy does not address a dollar threshold amount when a Board approved contract was required.
- We also found that insurance documents were not filed in one central location to make for an easy retrieval process. However, the District was able to provide appropriate insurance documentation for the items tested.

We noted the following related to the PO and invoice approval process in the Facilities Department:

- We found that the Facilities Director does not electronically approve PO requisitions through the Finance Manager (FM) system or manually sign off on PO requisitions. PO requisitions are entered into FM by the Facilities Secretary based on direction from the Facilities Director. These PO requisitions are then electronically forwarded directly to the Purchasing Clerk for review, prior to approval by the Purchasing Agent. Additionally, because the Purchasing Clerk has the authorization to enter a purchase requisition that exceeds the budget funds available, the Purchasing Clerk prepares, at year end, purchase requisitions that are not systematically routed for approval to the Facilities Department; however, they are printed and the Purchasing Agent reviews and manually approves them. This procedure is followed in most instances because the District is awaiting a Board approval for a budget transfer at year end, and the account has a negative balance.
- We reviewed several District bid files for Facilities purchases and/or services. We noted the bid files were in order, all bids were Board approved, and all bid submissions were detailed on the Board approvals with an indication as to which bid was the lowest bidder. We noted the following items related to bids and bid files:
  - The District primarily uses District time and material bids or Ed Data bids for purchases of goods and services for the Facilities Department, including large projects.
  - We noted there was not always a list of bids submitted to the District in the files.
  - Under the terms of the bids, District bids usually are allowed to be renewed for 3 years with a price increase up to CPI based on the terms of the bid. Each year, a letter is sent out to each vendor with a request to maintain the same pricing or increase by the CPI rate or somewhere in between. The Assistant Superintendent for Business reviews and signs the letters and the Facilities Secretary sends them out and keeps track that all are returned. The increase or price hold is formally approved by the Board of Education. We found that if a bid was renewed, the agreed upon price/rate was not always documented in the bid file to easily review the rates charged on invoices.
  - We noted that there were instances where materials were purchased from a vendor that were not found in the District bid specifications; including no specific requirements for a material markup or mark down percentage.
  - We noted that the Facilities Director prepared an informal calculation for time and material bids for when there was more than one bid submitted. This was included in the bid file; however, there was no indication that it was reviewed by an administrator.



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Our review of invoices found:

- We were informed that the Secretary to the Facilities Director receives all Facilities invoices to be approved. If the invoice is for supplies, she will match up the invoice, PO, and signed receiving copy of the PO/packing slip and will stamp the invoice with the Facilities Director's signature. If the invoice is for services, she will either call the individual responsible for the job and ask if the job has been completed or review the invoices with the Facilities Director. Upon receiving verbal approval, the Facilities Secretary stamps the invoice with the Facilities Director's signature. We noted that invoices for complex projects and high dollar amounts were directly reviewed by the Facilities Director and signed off. Additionally, if a third-party consultant was hired, we were informed that they approve the invoices; however, their approvals of the invoices were not always attached to the voucher package.
- Vendor quotes/invoices were not always detailed to be able to match to bid prices. In some instances material purchases were not fully supported; however, in some of these cases, the District was able to go back to the vendor during our fieldwork and obtain a detailed quote/invoice to support the charge. We noted that the Facilities Director understood the issues involved in each instance we reviewed and was able to supply verbal explanations for the exceptions. We noted pricing was not attached for purchases from state contract or co-op bids
- Accurate prevailing wage documents were not always attached to the voucher package to be able to tie to costs detailed in the invoices.
- In some cases, the purchasing method was not recorded on the PO to be able to readily support the pricing.
- As a result of our review, a credit of \$85 was issued to the District due to incorrect labor rates charged.
- During our review, the District Treasurer prepared an analysis of all Facilities projects, comparing the budget code the project had been originally budgeted to and the budget code the expenses for the project were actually charged to. We were informed that not all project expenses were charged to the budget code as originally budgeted. We were also informed that the budget presented to the Board was reviewed to the actual costs. In some cases it was less than the amount presented to the Board and in some cases the costs were greater than the amounts presented to the Board.

**Recommendations:**

We recommend the District consider implementing the following items to strengthen the internal controls over the financial operations of the Facilities Department:

- We recommend that the District consider updating the purchasing policy to include the following:
  - Develop formal written policies and procedures governing the procurement of goods and services when competitive bidding is not required.
  - Develop procedures for threshold amounts required for Board approval for contracts for professional services. Also, procedures should be considered to ensure that all required documents related to the contracts (i.e., insurance documents) are maintained in one place.
  - Determine if language should be added to the purchasing policy regarding the threshold amount when a separate District bid needs to be prepared for a Facilities project; instead of using existing District time and material bids or Ed-Data bids.

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- We recommend that the District consider the following to strengthen controls over the purchasing and invoice approval process:
  - We recommend that FM user permissions be changed to systematically route PO requisitions to the Facilities Director for approval, after the Facilities Secretary enters the requisition or require the Facilities Director to manually approve the PO requisitions. The process would then remain the same for the Purchasing Clerk to review and approve the requisition prior to the final approval by the Purchasing Agent. Additionally, we recommend that the Facilities Director review and approve all invoices for Facilities services and discontinue the use of a stamp approval. Additionally, when work is completed in the field, the individual overseeing the work should also sign off indicating that the work is completed. In the cases where a third-party consultant reviews the invoices the approval should be attached to the invoice.
  - Ensure that the proper documentation for invoices is attached (i.e., detailed vendor quotes and/or pricing from state contracts or co-op bids are attached to be able to match to bid prices and prevailing wage documents, and contract or co-op bid numbers be included in the PO). Additionally, emergency situations should be documented in the body of the PO. We further recommend that these procedures be shared with the Claims Auditor to facilitate his review. The Claims Auditor should also report on any exceptions.
- We recommend the following to improve the bid process:
  - A list of bids received should be documented for each bid opening and placed in each bid file.
  - If a bid has labor and material mark-up components, a Bid Tabulation Form should be created and completed for each bid to ensure that the lowest bidder is selected. This form should be reviewed and approved by the Assistant Superintendent for Business.
  - For any bids that are renewed each year, an Excel spreadsheet should be prepared with the new rates for each vendor. This spreadsheet should be provided to the Claims Auditor to facilitate the review of invoices.
  - The District should develop procedures documenting a threshold amount for the review of material invoices. The District should also consider updating bid language for items not originally included in the specific bids, including requirements for when material needs to be purchased, and a mark-up or mark-down percentage should be included in the bid specifications. Additionally, language should be added to the District bids to require vendors to provide third party invoices, where applicable, to be able to substantiate mark-up or mark-down percentages.
- We understand that the District Treasurer will work with the Facilities Director to prepare detailed budget worksheets when preparing the 2016-17 budget. We recommend that the budget worksheets are then used as a tool for the year to ensure that all expenses are charged to the correct budget codes. Additionally, the Facilities Director, if added as an approver of all Facilities PO requisitions, should check that the budget code on the PO is correct. We also recommend that if there are insufficient funds in a budget code a budget transfer be prepared on a timely basis.



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**CAPITAL PROJECTS**

**Background:**

The New York State Education Department (SED) filings are prepared by the Facilities Director along with the third-party contractor (i.e., Savin Engineers). The District Treasurer reviews the filings and sets up project-by-project budgets within FM. For the past two years, the capital projections have substantially been from General Fund transfers.

Budgets are entered into FM as the projects develop. Budget transfers, if required, are processed by the District Treasurer.

The account codes are established to allow tracking to locations, and SED project codes.

One project reviewed was \$800,000 for a safety and security related project.

**Summary:**

We found that the processes and procedures related to capital projects are functioning as designed.

**Procedures:**

We performed a review of capital projects as follows:

- Reviewed 2 capital projects completed during the year and reviewed supporting documentation for bid, award, contracting, change order management, disbursements, and job completion (including state reporting).
- Compared District records related to projects to the current 5 year plan and the annual surveys to determine if the work performed was part of the plan or was otherwise necessary.

**Findings:**

Review of 2 completed capital projects, noted:

- The vendors selected for these projects were taken from an Ed-Data bid. The total of the projects was approximately \$800,000.

Review of District records related to projects to the current 5 year plan and the annual surveys to determine if the work performed was part of the plan or was otherwise necessary, noted:

- Capital projects reviewed were part of the safety and security project. We noted that the projects were Board approved.

**Recommendations:**

Consideration in relation to capital projects should be given to the recommendations made above.

