

BUFFALO CITY SCHOOL DISTRICT

*Risk Assessment – Purchasing Cycle
For the Fiscal Year Ended June 30, 2017*

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Purchasing Cycle
For the Fiscal Year Ended June 30, 2017
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Certified Public Accountants

To the Audit Advisory Committee of the Board of Education
of the Buffalo City School District
Buffalo, New York:

We are pleased to report on the updated risk assessment for the Purchasing Cycle of the Buffalo City School District (the "District"). The purpose of our engagement is to continue to assist you in the development of a risk assessment of District operations, and provide recommendations to strengthen controls and reduce the identified risks. This report was developed from inquiries, observations, and tests of internal controls performed during the 2016-2017 fiscal year.

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. The Risk Assessment – Purchasing Cycle section of the report analyzes the significant risks and findings that were identified during our engagement.

For purposes of this report, internal control is a process, affected by the Board of Education (the "Board"), department heads and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting and safeguarding of assets. We have evaluated the District's current internal controls and have provided our risk assessment and a set of recommendations for strengthening controls and reducing identified risks.

As noted, the purpose of our engagement was to assist you in improving the internal controls and reducing the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system. In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined, or reviewed the information, and express no assurance thereon.

The accompanying findings and recommendations are intended solely for the information and use of the Audit Advisory Committee, the Board of Education, department heads, and others within the District, and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your District for their cooperation. We have already discussed many of these comments and suggestions with various District personnel and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Drescher & Malecki LLP

February 20, 2018

**Risk Assessment –
Purchasing Cycle**

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Purchasing Cycle
For the Fiscal Year Ended June 30, 2017

Overview and Scope

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. During our engagement, we became aware of various sources of risk that impact the District. We evaluated these risks by using two distinct assessments of impact and likelihood. A simple rating scale has been developed for this purpose. The rating scale ranges from minor to significant impact, and low to high likelihood, using a 3-point scale.

Impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, we have determined how much of an impact the risk has if it does occur:

- A minor impact suggests that the risk would not have important implications on the District.
- A moderate impact suggests that the risk could have implications on the District.
- A significant impact suggests that the risk would have important implications on the District.

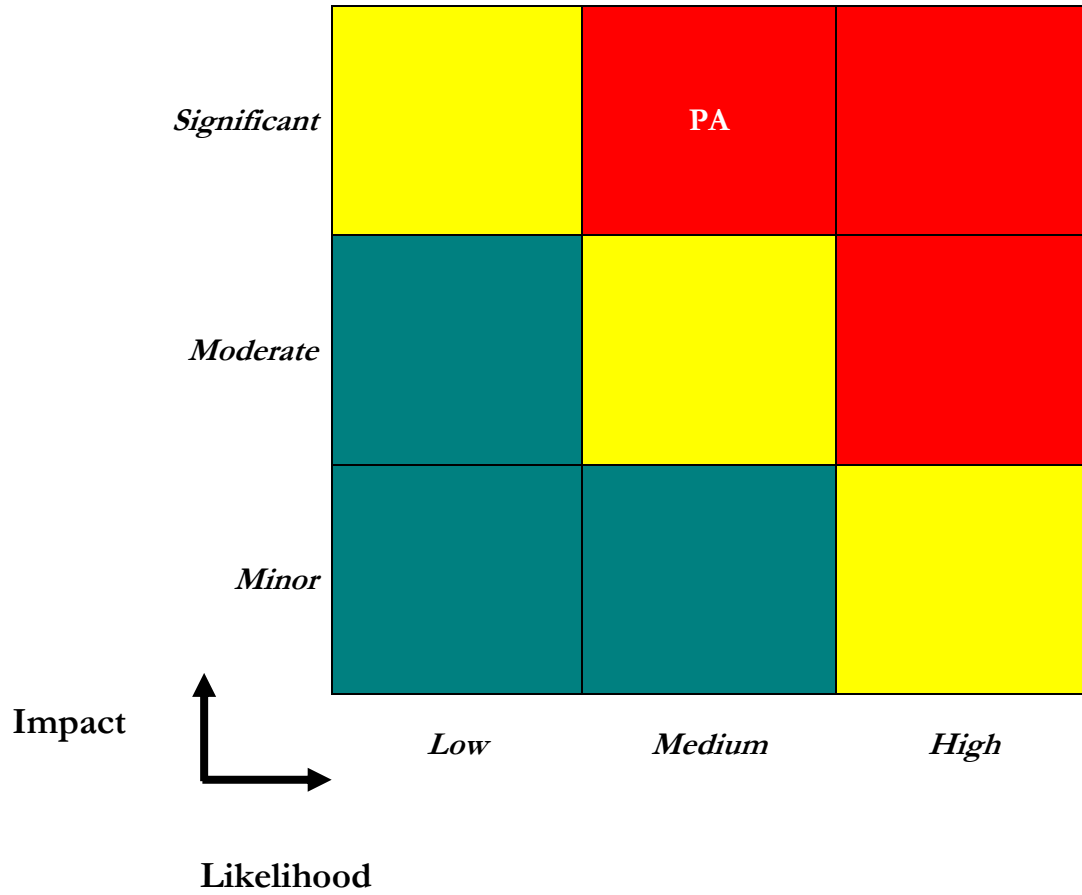
Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood suggests that the risk has a moderate probability of occurrence.
- A high likelihood suggests that the risk is likely to occur, despite the current risk management practices in place.

We have developed the risk assessment around significant financial transaction cycles as a means by which the associated risks can be easily understood and managed. The Summary of Internal Control Recommendations - Purchasing Cycle section of this report presents recommendations with more detailed information regarding criticality and implementation timeliness. This report includes risk assessment procedures performed on the Purchasing Cycle during the fiscal year ended June 30, 2017.

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Risk Management Tolerance Model



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Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
PA	We noted moderate to high overall risk in the Purchasing Cycle. Risks occur due to the following: <ul style="list-style-type: none">▪ Lack of P-Cards activity review▪ Inconsistent bidding procedures among departments▪ Subjective bidding criteria	Significant	Medium

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**Summary of Internal Control Recommendations –
Purchasing Cycle**

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Purchasing Cycle
For the Fiscal Year Ended June 30, 2017

Overview

Internal control recommendations represent those areas that afford department heads of the District the opportunity to improve financial reporting and internal controls, to better safeguard District assets, and/or to more efficiently or accurately record, summarize, and report financial transactions and information. They also represent those areas that may improve efficiency of operations and accounting functions, potentially resulting in costs savings.

We have provided a criticality rating and an implementation timeline for each internal control recommendation and business opportunity. Criticality ratings considered were urgent, important, and routine. The implementation timelines considered were short-term and long-term, reflecting the effort and time required to implement the applicable recommendation while factoring in the criticality assigned thereto.

As a result of our procedures performed for the Purchasing Cycle, there were 6 total recommendations. The criticality and timeline for the recommendations are as follows:

Internal Control Area	Number of Recommendations	Criticality			Timeline	
		Urgent	Important	Routine	Short-Term	Long-Term
Purchasing	6	-	5	1	3	3

Timeline – Each of the detail findings include a timeline reference of either “short-term” or “long-term.” Short-term refers to findings that we believe can be corrected within one year. Long-term refers to findings that may require changes to organization, systems, or procedures that may require over one year to effectuate the change.

Criticality – Each of the detail findings include a severity reference of either “urgent”, “important” or “routine”. Urgent refers to findings that we believe are of the highest severity. Important refers to findings that we believe are medium severity. Routine refers to findings that we believe are low severity.

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**Detail Findings and Recommendations –
Purchasing Cycle**

BUFFALO CITY SCHOOL DISTRICT
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Purchasing Cycle (PA)

Recommendation #PA17-1

Criticality: Important

Timeline: Short-Term

Purchase Cards (“P-Cards”) were not audited monthly by the Claims Auditors, primarily due to the absence of key employees within the Finance Department. The Purchase Department reviews spending trends on a weekly basis; however, no compensating reviews were performed in regards to individual purchases made with P-Cards.

We recommend that the District develop formal procedures for the Claims Auditors. This includes the duties to be performed by each auditor within the Department and an alternative plan if one leaves the District.

Response: As of April 10th 2017, the staff issue with Finance has been resolved. Going forward the Claims Audit Department will review the summary statement and conduct the periodic reviews required by existing policies to ensure that all P-Card transactions are appropriate and in accordance with existing procurement policies and identify any non-compliant transactions for subsequent resolution.

Recommendation: #PA17-2

Criticality: Important

Timeline: Short-Term

The Plant Department has a bidding process unique from the rest of the District departments, which utilize the process developed in the Purchase Department. Although the process is sufficient and detailed, the Board and other departments are not aware of their procedures.

We recommend that the Plant Department consider a formal communication or training session with Management and the Board as well as the Purchasing Department to present their bidding procedures. This may include a sharing of ideas, templates used, and examples shown. Considering the District’s efforts to streamline an electronic contract process, the Plant Department’s process should be evaluated for conformity and also reviewed for any steps which could be integrated into the District-wide bidding process.

Response: The Plant Department procures both construction and professional services, and acts independently from the Purchasing Department. The Plant Department has met with Purchasing in order to communicate processes better. After meeting with the Purchasing Department, the Plant Department will now not only advertise but place the projects on the District’s website.

Construction projects are competitive public bids. The project is advertised through the Buffalo News, the Challenger, the Buffalo Rocket and other local newspapers. Sealed bids are submitted to the Plant Department at a prescribed time and date. Any bids received after are not considered. At the prescribed time the bids are publicly opened and read aloud in the Plant Department's office. After review of the proper paperwork from the contractor, the Plant Department makes a recommendation on the bidder to the Board. With the Board's approval, the Plant Department enters into a contract with the contractor. Bids are based on the lowest responsible bidder's price.

Consultants are chosen through an evaluation process. Every two years the Plant Department advertises in the same newspapers a request for qualifications from professional engineers and architects for consideration of working on Buffalo Public School projects. The Plant Department ends up with approximately 40 vendors. When a project requiring a consultant is identified, the Plant Department will send out an RFP to the 6-8 vendors they deem most qualified for the particular project based on their submitted qualifications. The Plant Department asks them to submit a proposal and evaluates their proposals based on predetermined criteria. Price is one, but not the only, criteria. Once a selection is made the Plant Department submits their recommendation to the Board. For larger projects, the Plant Department will publicly advertise and evaluate in the same manner.

Recommendation: #PA17-3

Criticality: Important

Timeline: Long-Term

There are no uniform procedures in analyzing bidding results throughout the District's various departments. Most departments' bids are analyzed utilizing matrixes developed by the Purchase Department; however, the criteria for these matrixes are not established within each individual RFP. In addition, the matrixes are not uniform from bid to bid. For example, one bid may utilize a 1 to 5 ranking scale while another bid may utilize a 1 to 10 ranking scale. This creates the opportunity for bid results being more subjective at the Department's discretion.

We recommend that the District establish formalized procedures in regards to the evaluation of bids. This should include a provision in which, if matrixes are used, there should be criteria for the matrix itself, along with what constitutes an awarded rating of a 1 to 5.

Response: Director of Purchasing is developing a standardized RFP scoring matrix with the cooperation of staff that frequently request RFP solicitations for services. The commodities bid reconciliation process remains as is: lowest responsible bidder is awarded unless there are extenuating circumstances.

Recommendation: #PA17-4

Criticality: Important

Timeline: Long-Term

Certain contracts within Special Education, Benefits Office, and Information Technology were noted taking as long as one year from the RFP date advertised to the date a contract was executed. This lengthy process is primarily attributed to the contract procedures within the District.

We recommend that the District demonstrate its continued effort towards creating a more efficient contract process to allow for a shorter turn-around time.

Response: The District questions the recommendation, as it seems to be individual departmental responsiveness that attributes to the length of time an RFP process is culminated with an executed contract, moreso than a District contract process deficiency. The primary reason for the lag between RFP opening and contract execution is attributed to the inconsistency by the various departments for whom the RFP's were executed for. In many cases, the departments fail to address and analyze the RFP's submitted with any sense of urgency, which could lead to a speculation of the veracity of the genuine need of the services. As for the contract process, the District recently adopted an electronic contract approval system which streamlined the process, moving approvals along at a much quicker pace and providing real-time tracking of the process throughout the journey of the document.

Recommendation: #PA17-5

Criticality: Important

Timeline: Short-Term

Contracts were often awarded to vendors who were on the New York State Office of General Services approved contract list. Although many of the awards were for State mandated specialized services, there were also general services (such as IT network maintenance and hardware purchases) included on the request for proposals that could have gone out separately to general bid for further competition.

We recommend that the District analyze all contracts for State approved vendors and determine whether the goods or services should go out to general bid.

Response: This may have been true in the past, but not so much presently. The current protocol for the abovementioned OGS contracts is to solicit mini-bids derived from OGS awarded contracts (i.e. much like a BAFO (best and final offer) or a "second bite of the apple"). To state that putting out our own bids rather than piggy-backing or issuing mini-bids from established contract awards is idiosyncratic, and cannot be considered practical in all cases. As for the enhanced competition, we have discovered there are more vendors that participate in State-wide bids than our own bids. This is for obvious reasons, such as the State bids offering more of an opportunity for a wider spectrum of demand. There is however, validity to the District issuing our own bids for one-time, high volume commodity requirements, such as 500 cases of floor finish or 1000 cases of trash can liners etc.

Recommendation: #17-PA6

Criticality: Routine

Timeline: Long-Term

During review of the bidding process, three of the ten proposals received for an IT contract RFP were noted in the initial review as being determined responsible bidders. However, when the lead bidders were compared using a matrix, one of the three responsible bidders was excluded from further consideration while other bidders deemed as non-responsive were given the matrix consideration.

We recommend that the District ensure all bidders found to be responsible in the initial review of bids be consistently included during the matrix consideration progress and further review.

Response: The District acknowledges that all responsive bids should be included in an evaluation matrix for projects that advance to award. In this instance however, the project was abandoned before award and offer the following explanation as to what transpired:

Ten proposals were received, nine network switch proposals, and one for wireless equipment only. The nine network switch proposals were divided into three cost bands below:

- **On the lowest cost band**, all three proposals were deemed not responsive via an in-depth evaluation and duly noted on the detailed evaluation matrix and summary cost matrix.
- **On the middle cost band**, all three proposals were determined to be lowest responsive cost via an in-depth evaluation. The three proposals were duly noted on the cost summary matrix however only two proposals were noted on the detailed evaluation matrix before the project was halted and we stopped work.
- **On the highest cost band**, all three proposals were deemed not cost effective and therefore did not received the same in-depth scrutiny as the two lower cost bands due to time constraints. All three proposal were duly noted on the cost summary matrix however the detailed matrix was not updated before the project was halted and we stopped work on the evaluation.

As previously noted, the tenth proposal was not a complete solution, it was for wireless equipment only and duly noted on cost summary matrix as wireless only. Going forward IT will ensure that all responsible bidders are evaluated by a matrix.