

***Putnam Valley Central School District
Capital Project and Construction Management
Internal Audit Report
October 2019***

October 8, 2019

Ms. Jeanine Rufo
President, Board of Education
Putnam Valley Central School District
171 Oscawana Lake Road
Putnam Valley, NY 10579

Dear Ms. Rufo:

We have recently completed our internal audit of internal controls over capital project and construction management, including the planning & monitoring of capital projects at the Putnam Valley Central School District (“the District”). These functions were recommended for audit in our internal audit risk assessment update FY 2018/2019 report dated May 24, 2019.

This internal audit report includes background information, the audit scope and objectives, summary of audit findings, and our observations and recommendations. The audit procedures performed included various tests, reviews, and evaluations in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

This report includes observations identified during our audit, with recommendations to improve internal controls and enhance operational effectiveness. We are available to meet with the Audit Committee/Board to discuss the report at its convenience.

We appreciate the fine level of cooperation provided to us by the District’s staff during our audit and look forward to working with them in the future.

Very truly yours,



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Background

As a result of the Internal Audit Risk Assessment report for fiscal year 2018-2019 and recommended Audit Plan, a Capital Project and Construction Audit was recommended to be performed. Accordingly, the Board of Education and Audit Committee authorized an audit of this area. Our audit was conducted in accordance with the audit standards published by the Institute of Internal Auditors.

Audit Scope and Objectives

We performed an internal audit of the Capital Project and Construction management functions and related internal controls. Our internal audit was conducted to assess the level of compliance with procedures set forth by the District's Central Administration. We assessed and evaluated the policies, procedures and practices relating to the District's contract formation, contract administration and monitoring functions of the capital construction project process. As part of this assessment, we interviewed selected staff, performed tests on selected contractor bids, contractor application and certification payment requests, change orders, and various related project management oversight and financial summary reports as deemed necessary to understand the process and to determine compliance. During the audit we examined internal controls over these Capital Project and Construction management functions for the period from October 1, 2016 through June 30, 2019.

The audit procedures that we performed included the following:

- Reviewed existing District policies and procedures
- Reviewed the control environment
- Interviewed the District Treasurer, the Accountant and the Claims Auditor
- Reviewed the District's books and records
- Reviewed the Contract Bid process
- Reviewed the Contract Administration process
- Reviewed the Contract Payment and Change Order process
- Reviewed the District's practices for management and oversight of the Capital Construction Project process

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Summary of Audit Findings

Our audit focused specifically on the review of the following areas and key processes within the District. Included is our Audit Rating of the operating and internal control environment of each audit area.

Audit Area	Key Processes / Documents Reviewed	Recommendations	Audit Rating*
Contract Bid Process	<ul style="list-style-type: none"> • Contractor Bid documents • Bid envelopes • Board Meeting Minutes 	1. The District should continue its procedures and controls for requesting and processing contractor bids and utilize a mechanical date and time stamp for received sealed bids.	Adequate/ Satisfactory
Contractor Payments	<ul style="list-style-type: none"> • Contractor's Application & Certificate for Payment • Fund Check Warrant Certification 	2. The District should continue its procedures and controls for processing contractor payments.	Adequate/ Satisfactory
Contract Changes	<ul style="list-style-type: none"> • Change Orders • Board Minutes 	3. The District should continue its procedures and controls for processing Change Order requests. The Business Office may want to determine that an additional review step be added to confirm that a complete and identical set of signed copies sent to NYS is filed in the Business Office.	Adequate/ Satisfactory
Contract Monitoring	<ul style="list-style-type: none"> • Construction Manager Agreement • Construction Project reports • Committee Meeting Minutes 	4. The District should continue its capital construction project monitoring committees and processes.	Adequate/ Satisfactory
Capital Project Procedures	<ul style="list-style-type: none"> • Board Policies • Department Level Procedures 	5. The District should continue to maintain its Department level procedures regarding the administration and monitoring of capital projects.	Adequate/ Satisfactory

* Our classification of audit findings is based on the following Audit Ratings:

Audit Ratings Defined

Significant Issues	Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the District.
Needs Improvement	Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent deterioration and possible losses.
Adequate/Satisfactory	Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings may indicate modest weaknesses that require management's attention.

Observations and Recommendations

1. The District should continue its procedures and controls for requesting and processing contractor bids.

Observation: Internal Audit tested and reviewed the bids process for five different projects to determine the District was in compliance with its Purchasing Policy and applicable rules and regulations. Testing included reviewing a total of 13 bids, with an emphasis on the winning bid and the second and third place bidders for the referenced project. There were no major discrepancies. However, all of the bid envelopes contained a hand written date and time acknowledgement of receipt. The better form of receipt of bids' acknowledgement would be to use a mechanical time and date stamp. Additionally, the District or its representative architectural firm maintains a log documenting the receipt of sealed bids for the capital construction projects.

School District Risk and/or Opportunity: An adequate internal control environment is one whereby internal controls are established to help ensure compliance with District policies and applicable governing rules and regulations. Competitive purchasing policies and procedures are essential internal controls that help to ensure all recognized and responsible vendors are given equal opportunity to supply the District, prevent favoritism of one vendor over another, keep District residents informed of the purchasing function, and help to prevent fraud on part of the Purchasing Agent. Specifically, date and time stamping the sealed bids provides evidence that sealed bids were received by the District up until the Bid Open time. This ensures that no one vendor is given preferential time and opportunity to develop their bid offer.

Recommendation: The District should continue its procedures and controls for requesting and processing contractor bids and utilize a mechanical date and time stamp for received sealed bids.

Management's Response:

2. The District should continue its procedures and controls for processing Contractor Payments.

Observation: Internal Audit reviewed the procedures in place to ensure that claims for payment made by construction contractors are supported by sufficient documentation, adhere to contract provisions, and are appropriately approved. In that regard, we tested 12 contractor Application and Certification for Payments totaling \$6,104,704.25 to determine if they were properly prepared, reviewed by the respective authorizing parties and supported by appropriate documentation. Of the transactions tested, there were no major exceptions.

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School District Risk and/or Opportunity: A strong internal control system is important to help ensure that only properly authorized, documented and necessary expenditures to contractors are made on behalf of the District. The District should ensure that the receipt, review and approval of capital project expenses from contractors and construction firms are sufficiently documented and closely reviewed. Validation and verification of supporting information helps to ensure that the expenses are valid and correspond to services provided.

In general, internal controls help to deter and prevent fraud, waste and misappropriation of assets, which may occur due to the lack of compliance with established policies and procedures as well as appropriate supporting documentation. All expenditures should be supported with adequate documentation to ensure transactions were authorized, services were performed, and the nature of the expense was validated as an appropriate District expense related to the capital project.

Recommendation: The District should continue its procedures and controls for processing Contractor Payments.

No Management Response Required

3. The District should continue its procedures and controls for processing Change Order requests.

Observation: Internal Audit tested the seven approved Change Order requests which were processed in FY2017 and FY2018 per the NYS website's Schedule of Change Orders of totaling \$31,405.00 in increases and \$9,830.00 in decreases to determine they were properly prepared, reviewed and signed by the required parties, supported by appropriate documentation, certified by the Superintendent, and approved by the Board. Of the transactions tested, there were no major exceptions except that the Superintendent's Certification Signature was missing on 3 change orders. Upon investigation, the NYS website's Summary Change Order Report showed that the change orders were received on March 16, 2017 and approved on May 16, 2017 which supports the belief by the Business Office that the properly signed reports were sent to NYS but not copied and/or filed properly in the Business Office.

School District Risk and/or Opportunity: A good internal control environment consists of well documented procedures and an appropriate level of authorization to ensure controls are functioning as intended. The School Board is required to be fiscally responsible for the funds entrusted to the District via property taxes and other funding methods such as state aids and grants. The School Board reviews and approves, via a resolution recommended by the Superintendent, the awarding of contracts, including those involved in construction projects, based on evaluation of qualifying bids received via the NYSED and GML guidelines. The Board President, not the District Superintendent, signs the awarded contract. A change order, which is reviewed and recommended by the Project Manager, represents an amendment to the Contract, and should require the same level of approval by the School Board, unless the Board

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has specifically designated its authority to approve amendments (i.e. change orders) to a District official such as the Superintendent. A risk exists that fiscal responsibility could not be exercised by the School Board as it is not formally informed of Change Orders, their nature and the potential impact on the District's financial statements.

Recommendation: District Administration should continue its procedures and controls for processing Change Order requests. The Business Office may want to determine that an additional review step be added to confirm that a complete and identical set of signed copies sent to NYS is filed in the Business Office.

Management's Response:

4. The District should continue its capital construction project monitoring committees and processes.

Observation: Internal Audit reviewed the agreement between the Board and the Construction Management firm to gain an understanding of the primary monitoring and reporting requirements for the construction projects. We noted that the District has experience with contracted Construction Managers as well as acting as the Construction Manager and, in conjunction with the architectural firm, observing the appropriate monitoring and reporting requirements. Our review of the reports, meeting minutes and other documentation indicated that the overall processes are satisfactory to provide the District Administration and the Board with a timely monitoring control.

School District Risk and/or Opportunity: Formal coordination between the Board, District Administration and the Construction Management firm ensures not only that the capital projects are professionally managed but also that the Board and the District's interests are regularly overseen and reported in timely and well defined processes.

Recommendation: The District should continue its capital construction project monitoring committees and processes.

No Management Response Required

5. The District should continue to maintain its Department level procedures regarding the administration and monitoring of capital projects.

Observation: Internal Audit noted that the Business Office in general, has both formal and informal procedures related to the accounting, budgeting, administering, managing, and monitoring of capital projects. The Business Office has an experienced staff that is knowledgeable and currently does not require extensive procedural documentation. Further,

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the NY State Education Department (SED) provides specific forms, procedures and the like for the requisite filings and reports for capital projects.

School District Risk and/or Opportunity: Formally documented procedures help to enhance the District's overall internal control environment. Documented procedures help to ensure that capital projects management and monitoring functions are performed in a defined consistent manner. Documented procedures provide a framework for employees to understand how to implement applicable Board policies and District goals, as well as day to day functions and operations. Formal documented written desk procedures for the capital construction project processes can help ensure continuity of such operations during times of change or personnel turnover that are critical to such processes.

Recommendation: The District should continue to maintain its Department level procedures regarding the administration and monitoring of capital projects.

No Management Response Required