

a community for learning

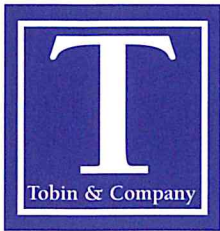
Chappaqua Central School District Review of Capital Projects

Covering the State Mandate for the year ended June 30, 2017

Chappaqua Central School District

Table of Contents

Cover Letter	1
Overview	2
Summary	3
Procedures	4
Reviewed Areas.....	5-9



TOBIN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, PC

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

We have performed an intensive review in the area of Capital Projects, as agreed to by 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, 2017.

Our report provides results of attribute testing performed on the selected area. In addition, our report indicates 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 the Chappaqua Central School District for their time and assistance during our engagement.

Sincerely,

Tobin & Company
Certified Public Accountants, PC

Purchase, New York
January 5, 2017

Subsequent to the issuance of the Updated Risk Assessment report (dated August 31, 2016); the Board of Education engaged our firm to perform an intensive review on the Capital Projects process. The following is an excerpt from the Updated Risk Assessment Report regarding the Facilities and Capital Assets process:

CAPITAL PROJECTS - Risk Score: 65

This is an area where the amount of funds expended can be significant. As with accounts payable and payroll this attribute automatically increases the level of risk. The greatest risk in this area would be invoices being paid without proper review and approval. However, the District has procedures in place to minimize their exposure. The District is in the process of various infrastructure improvements as well as field renovations. We believe Capital Projects is a good area for an intensive review.

Key personnel interviewed during our review process were as follows:

John Chow, Assistant Superintendent for Business and Administrative Services

Blanche Blair, District Treasurer

Michael Trnik, Purchasing Agent

Joseph Gramando, Director of Facilities

Christopher Weir, Claims Auditor

Claire A. DeBlasio, KG&D Architect

Chappaqua Central School District

Summary

The District routinely budgets approximately \$575,000 each year for small capital projects. During June 2016 the voters approved a \$42.5 million bond to finance the following projects with their estimated completion dates:

Competition Field at Greeley	August 2017
DG/RB/WO Global Learning Centers	September/October 2017
BS/SB STEAM Learning Centers	September/October 2017
Chappaqua Public Library	September/October 2017
Side Field at Bell	August 2018
C Field at HG	August 2018
Fields at Seven Bridges	September/October 2018
HG Global Learning Center	September/October 2018
HG STEAM Learning Center	September/October 2018
HG Instructional Centers, Phase 1	September/October 2018

The District has estimated the project costs as listed below:

	(Estimated)
Educational Projects	\$ 27,667,000
Infrastructure Projects	6,976,208
Field Projects	5,265,000
Chappaqua Public Library	1,700,000
Design Contingency	891,792
Total Bond Amount	\$ 42,500,000

These projects were identified and selected by both building level committees (including teachers, students, and administrators) and the District's Facilities Committee (which includes representation from the community). The District uses consultants, KG&D Architects, to assist with budgeting, state processing/filing and approval of progress payments to contractors. KG&D interacts with and supports the District's Purchasing, Building and Grounds, and Business Office with capital projects. This bond will enable the District to take advantage of an expected New York State reimbursement of approximately 33.6% for the cost of each approved project. The work is scheduled to begin April 2017 and the bond is expected to be repaid over a period of 20 years.

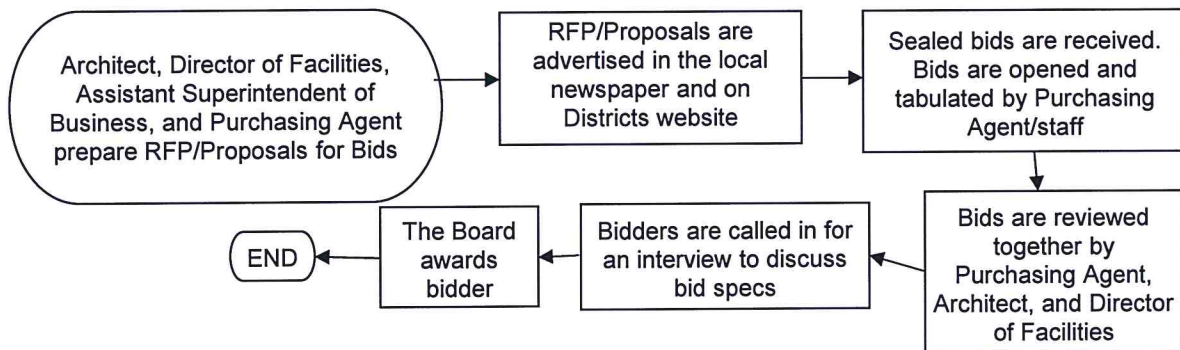
In order to gain a better understanding of the capital project system we selected three recent projects for attribute testing. These tests are designed to identify key controls (or absence of) in the processes. We also reviewed the procedures and processes in place for the architect/construction manager as they relate to the District. The projects selected were:

- The District's Energy Performance Contract
- The Horace Greeley Cafeteria
- Horace Greeley High School's the Learning Commons-Interior Alterations (ILAB)

We reviewed internal controls for the bidding process, project change orders, vendor payments, and state filings.

Bidding Process

A summary of the bidding process is as follows:



As part of our review we tested a sample of bid packets, bid responses and bid tabulations for prior Capital Projects (District's Energy Performance Contract, the Horace Greeley High School Interior Alterations project, and the Cafeteria Kitchen Serving Line project). We also interviewed the Purchasing Agent and District Treasurer about the bidding and awarding procedures and process. Our testing included reviewing projects for the following attributes:

- i. Copy of original bid
 - ii. Proof of bid advertisement
 - iii. Tabulation of bids received
 - iv. Bid tabulation was prepared accurately
 - v. Copies of all bid responses in the folder (matching to bid tabulation)
 - vi. Copies of Board resolutions relating to capital projects
 - vii. Proof that Board resolutions were passed
 - viii. Notice of award to selected bidder
- b. For each selected bidder we reviewed documentation of:
- i. Insurance certificates
 - ii. Bid bonds
 - iii. Non Collusive Certifications
 - iv. Qualifications statement
 - v. Performance Bonds

Potential Risks That Could Exist In This Process:

- 1) Insufficient record keeping and inefficient budgeting
- 2) Bid rigging or collusion between District and awarded bidder.
- 3) Electing the lowest bidder who might lack experience or the ability to continue in business, the quality of material can be questionable, and the amount of time to finalize a project can be longer than anticipated.
- 4) Accepting late or suspicious bids.

Bidding Process (continued)

Mitigating Internal Control or Procedures Currently In Place

- 1) Bids are prepared with assistance from architect and advertised independently by the Purchasing Agent. Bids are posted in newspaper and on the District's website.
- 2) At least two District employees are present at bid openings.
- 3) Copies of all bid responses are kept by the District.
- 4) District is working with architect/construction manager which will add controls to the process.

Below are the results of our tests:

- 1) For all the projects tested, there were at least two bidders present and as high as ten bidders on certain projects. Having more bidders present decreases the likelihood of collusion bidders and ensures that the District is receiving the best price.
- 2) The Energy Performance Contract (EPC) did not require a bidding process. Due to the nature of this project, the vendor, Johnson Controls, was state mandated and was therefore automatically awarded the contract.

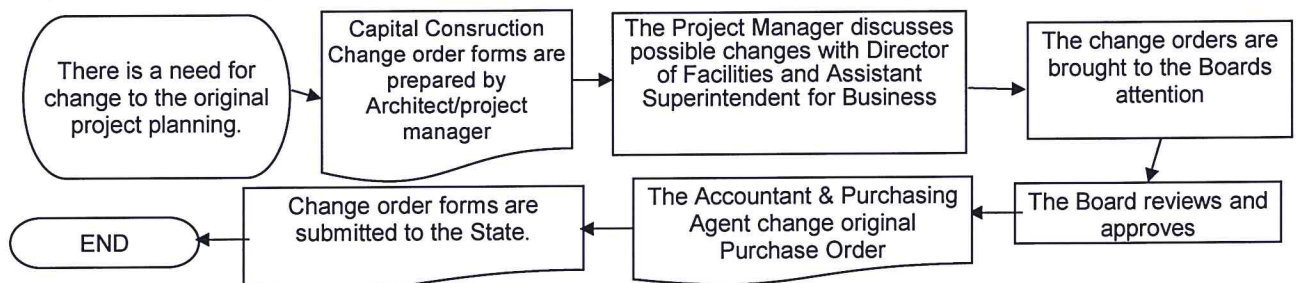
Additional Observations and Recommendations noted during our test:

- 1) Observation: During the bidding process the District advertises in the local newspaper and relies on the architects for referrals.
Recommendation: The Purchasing Agent should also reach out to neighboring school districts and ask for referrals during the bid advertising. This may increase the number of potential bidders and help decrease the potential for collusion. (*Best practice recommendation*)

District Response: The Purchasing Agent has been seeking referrals from the architect prior to the bidding process. However, in the future, he will also reach out to his colleagues for additional referrals.

Change Orders

The process for change orders is as follows:



Change Orders (continued)

Potential Risks That Could Exist In This Area:

- 1) Changes to the original projects are not necessary.
- 2) The suggested change orders are for items already included in the original project plan and/or are duplicated.
- 3) Change orders may not be properly reviewed and approved to identify changes to the original contract terms, labor rates, and scope.

Mitigating Internal Control or Procedures Currently In Place:

- 1) The Director of Facilities is actively involved in the change order discussion with construction management.
- 2) Change orders must be approved by the Board before implementation and payment.
- 3) Approved change order forms are signed by the Construction Manager, Architect, Director of Facilities, and Business Office.

We reviewed change orders from the three selected projects for the following attributes:

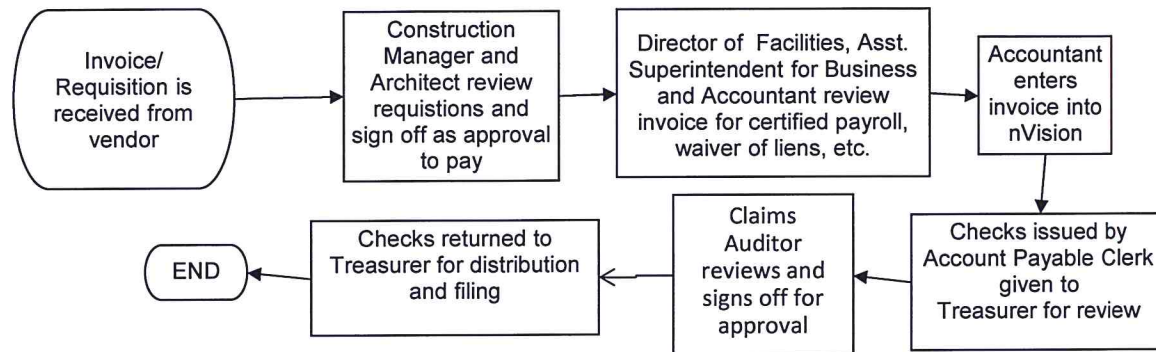
- i. Signed by the Construction Manager, Architect, Vendor, and the Assistant Superintendent
- ii. Includes a description of the change
- iii. Documentation of Board resolution approving the change
- iv. Certification form signed by the Superintendent of Schools.
- v. Change order was filed with the State.

Observations and Recommendations:

- 1) **Observation:** Due to the relatively low financial costs of projects tested there was not a high demand for change orders. While properly authorized change order documents may exist, they were not present in the folders tested. However, we were provided with blank change order forms from KG&D that would be used for subsequent projects.
Recommendation: Having and keeping track of these documents are an integral part of maintaining effective internal controls. This would help ensure that the Board makes an informed decision and can help prevent unauthorized change orders from being submitted, approved, and paid. (*Best practice recommendation*)

District Response: At the June 14, 2017 Board of Education meeting, the Board will pass a resolution to govern the approval of change orders.

Vendor Payments



Potential Risks That Could Exist In This Area:

- 1) Checks are paid to the wrong vendor and/or wrong amount.
- 2) Invoices are duplicated and paid more than once.
- 3) Fraudulent disbursements are prepared and mailed out.
- 4) Employees increase the purchase order amount after the invoice has been received.

Mitigating Internal Control or Procedures Currently In Place:

- 1) Claims Auditor reviews and approves payments for capital projects expenditures.
- 2) The District requires four signatures for approval for invoices and payment requests. The signatures required are from the Construction Manager, Architect, the Director of Facilities, and Assistant Superintendent for Business.
- 3) The Accounts Payable Clerk reviews the invoice for reasonableness.
- 4) The District Treasurer is in charge of check distribution.

During our review, we sampled 45 disbursements from the District's Energy Performance Contract and the Cafeteria Kitchen Serving Line project combined. We reviewed for the following attributes:

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

The summary of our findings are as follows:

- 1) During our testing of the Energy Performance Contract there was one instance where the claims auditor's approval was attached to a post-it which was attached to request for payment.

Vendor Payments (continued)

- 2) During our testing, we noted that the District did not always use the AIA forms on capital projects. However, the architect has confirmed that the forms are used for any large Capital Projects.

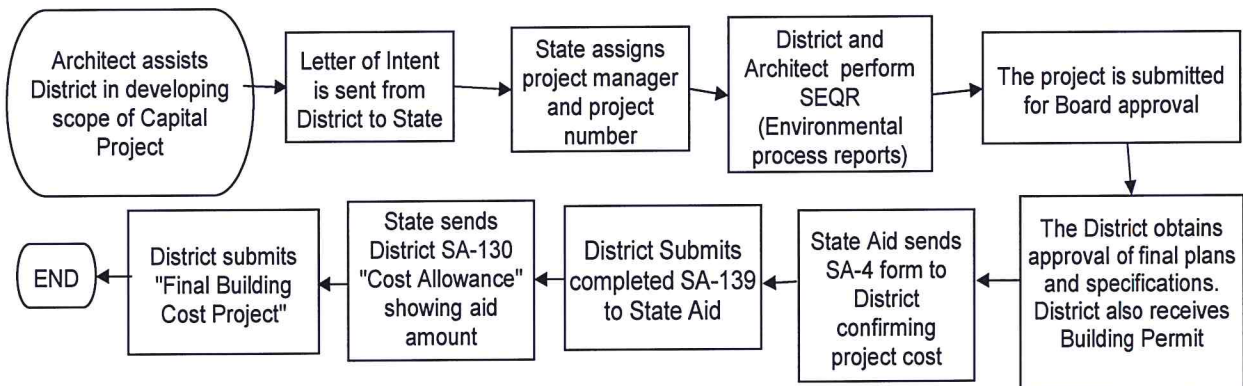
Additional Observations and Recommendations:

- 1) Observation: During our review, it was noted that the District was deficient on timeliness of closing out its Capital Projects in nVision.
Recommendation: In order to assist in the process, the District should consider investing in software, such as CapProSoft. By investing in a software program the District would significantly increase its efficiency and effectiveness of this process.
(Process improvement)

District Response: In order to complete the final completion report, the District must have all the documents in order and signed off. At this time, we do not believe that we have the need to use the CapProSoft to assist us, or other software. We will continue to monitor the progress.

State Filings

The processes of State filing and reporting of Capital Projects is as follows:



Potential Risks That Could Exist In This Area:

- 1) Expenditures could be miscategorized.
- 2) Overspending in budget codes.
- 3) Money could be incorrectly transferred between unrelated budget codes and funds.
- 4) SED reports filed with inaccuracies.
- 5) State Filings could be filed late.

Mitigating Internal Control or Procedures Currently In Place:

- 1) The Treasurer periodically reviews the Capital Project budget codes in nVision. The review helps ensure Capital Project expenditures are properly posted.
- 2) On a periodic basis the Treasurer and Assistant Superintendent for Business review and discuss Capital Project actual expenditures and budget status.

State Filings *(continued)*

- 3) Capital Project appropriation status reports are included in the monthly Treasurer's report to the Board.
- 4) The District uses a SED filing checklist form to ensure all documents are properly submitted with the State.
- 5) The District works with their Architect, KG&D, and a financial advisory company, Bernard P. Donegan, Inc., with their state filing processes.

For each of the selected projects we reviewed their respected folders for the following state filings:

- i. Letter of intent
- ii. Form SA-139 with contract dates, and source of funding
- iii. Copies of change orders
- iv. Final building cost reports
- v. Certificates of substantial completion
- vi. Timeliness of filing of final reports

During our engagement we performed a review of the final SED filing for the Learning Commons-Interior Alteration project. We noted the report was properly filed and included all the necessary documentation and signatures.

Interaction with Outside Consultants for Capital Projects

As part of our engagement, we contacted the District Architect, KG&D, and reviewed processes and procedures over capital projects. The Architect plays a pivotal role in the District's Capital Projects. Below are some of our findings:

- KG&D has experience with School District Capital Project's processes and controls.
- The Architect sends official letters of recommendation to the District.
- The Architect checks bidder's referrals to verify legitimacy and accuracy of past work.
- While we did not note any change orders during our testing, KG&D prepares official documents and sends them to the required officials for review.
- The Architect maintains an excel log which tracks project progress along with vendor payments.