

**Jericho Union Free School District
Report on the Internal Controls of the Facilities
and Capital Projects Cycle
May 2018**

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Functional Area Exhibits (please see attached)

A. Narrative of Functional Area Procedures

I. Scope of Engagement

The Board of Education of the Jericho Union Free School District has engaged Nawrocki Smith LLP to provide internal audit services with respect to the District's policies, procedures, and internal controls pertaining to the Facilities and Capital Projects Cycle. As part of this engagement, we performed extensive analysis and validation tests surrounding the District's policies and procedures of the Facilities and Capital Projects Cycle.

The objective of our analysis was to determine if the internal controls within the Facilities and Capital Projects Cycle are adequate to ensure that duties are properly performed and that the controls over assets are implemented and assets are properly safeguarded. The District's various facilities policies are a summary of the responsibilities regarding district reporting and administration of facilities and capital projects.

We have analyzed the financial and operational documents made available to us by the District as well as interviewed various employees who carry out responsibilities within the Facilities and Capital Projects Cycle.

Our analysis consisted of the following:

- Review of documented policies and procedures applicable to Facilities and Capital Projects after interviews and discussions with key employees.

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- Identified controls within each functional area of the Facilities Capital Projects Cycle and performed tests of those controls.
- Made observations and recommendations pertaining to the internal controls of the Facilities and Capital Projects Cycle based upon observed procedures and testing that performed.

Interviews and inquiries were conducted with the following District employees:

<u>Title</u>	<u>Department</u>
Assistant Superintendent for Business Affairs	Business Office
Director of Buildings & Grounds	Buildings and Grounds
Treasurer	Business Office

Accordingly, we documented the current procedures within each functional area of the Facilities and Capital Projects Cycle by way of narrative within the attached Exhibit A.

II. General Controls and Governance

We reviewed all Board of Education approved policies and District procedures regarding Facilities and Capital Projects in order to obtain an understanding of the various processes within each area and determine if policies and procedures are in compliance with state and education laws and regulations. We also reviewed the District's Five-Year Capital Facilities Plan.

Observation

We noted that the District's Facilities and Capital Projects related policies and procedures comply with applicable state and education laws and regulations. In addition, the District has a formal Five-Year Capital Facilities Plan in place that is updated annually as per District policy and education law.

No recommendation at this time.

III. Planning Review

We reviewed planning documentation including Board of Education and New York State Education Department ("NYSED") approvals, contracts, and construction meeting minutes for the following capital projects:

- Cantiague Elementary School – *Project #28-05-15-03-0-005-015*
- George Jackson Elementary School – *Project #28-05-15-03-0-001-013*
- Robert Seaman Elementary School – *Project #28-05-15-03-0-014-011*
- Jericho Middle School/High School – *Project #28-05-15-03-003-036*

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Observation

We noted that vendor contracts for the above noted capital projects were maintained by the District, signed by the District and contractor, and reviewed and approved by the Board of Education and NYSED prior to the start of construction.

No recommendation at this time.

Observation

We noted that the architect utilized by the District, John A. Grillo, P.C., was approved by the Board of Education in May 2016 after a request for proposal was issued by the District in March 2016. We reviewed the proposal submitted by John A. Grillo, P.C. and determined it to be in compliance with documentation required by the District. In addition, we noted that the construction manager, School Construction Consultants, Inc., was selected from a Nassau BOCES cooperative bid and approved by the Board of Education in November 2016.

No recommendation at this time.

IV. Recordkeeping Review

We reviewed capital project files maintained by the District which included the plans and specifications, architect documentation, building permits, NYSED approvals and forms including, but not limited to Form SA-4 *Notification of Building Project Data*, Form SA-130 *Cost Allowances & Bond Percentage for Building Aid Purposes*, and Form SA-139 *Request for Building Project Data* related to the following capital projects:

- Cantiague Elementary School – *Project #28-05-15-03-0-005-015*
- George Jackson Elementary School – *Project #28-05-15-03-0-001-013*
- Robert Seaman Elementary School – *Project #28-05-15-03-0-014-011*
- Jericho Middle School/High School – *Project #28-05-15-03-003-036*

Observation

We noted that all of the documentation noted above was included in the capital project files for the capital projects we reviewed. The documentation maintained by the District was accurate, appropriate, and contained the required approvals, if necessary.

No recommendation at this time.

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V. Funding and Payment Review

Capital Project Funding

We reviewed Form SA-4 *Notification of Building Project Data* and the Final Cost Reports to determine that the NYSED approved funding for each of the following capital projects:

- Cantiague Elementary School – *Project #28-05-15-03-0-005-015*
- George Jackson Elementary School – *Project #28-05-15-03-0-001-013*
- Robert Seaman Elementary School – *Project #28-05-15-03-0-014-011*
- Jericho Middle School/High School – *Project #28-05-15-03-003-036*

We also reconciled all expenditures reported on the Final Cost Report for the four (4) capital projects noted above to the general ledger detail from the accounting software, NVision to verify that expenditures did not exceed the approved budget to each capital project.

Observation

We noted that the four (4) capital projects noted above were funded with capital reserve funds and budgetary appropriations as per their respective Form SA-4 *Notification of Building Project Data*. The funds were properly appropriated and encumbered to cover anticipated expenditures, all purchase orders were created after vendor approval, and expenditures and purchase orders were within the approved budget for each capital project.

No recommendation at this time.

Capital Project Change Orders

We reviewed all change orders related to the above noted capital projects to determine if the *AIA Document G701 – Change Order Certification* was completed timely, accurately and contained the proper approvals. We also reviewed Board of Education meeting minutes to verify Board of Education approval of the change order and the related increase or decrease in the vendor's awarded contract dollar amount.

Observation

We noted that there were a total of ten (10) change orders for the above noted capital projects. All change orders had an *AIA Document G701 – Change Order Certification* that was completed timely and accurately. In addition, the change orders were signed by the architect, contractor, and District and approved by the Board of Education.

No recommendation at this time.

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Capital Project Payments to Vendors:

We reviewed twenty-five (25) capital projects related expenditures for the period July 1, 2017 to October 31, 2017. We reviewed the cash disbursement packet for each payment to determine the reasonableness and accuracy of the payment and to ensure that appropriate approval and sufficient documentation was obtained prior to payment. We also reviewed the purchase orders to ensure they were created prior to the start of construction.

Observation

We noted all cash disbursements tested were reasonable, accurate, properly approved, included sufficient supporting documentation and purchase orders that were created prior to the start of construction.

No recommendation at this time.

Facilities - Overtime Payments to Employees:

We reviewed thirty (30) overtime payments made to Buildings & Grounds Department employees during the October 27, 2017 and November 9, 2017 pay periods to ensure overtime payments were properly approved, mathematically accurate, reasonable in nature, and included an explanation or description of the work completed. We also reviewed the Buildings & Grounds contract to verify employee eligibility and pay rates.

No recommendation at this time.

VI. Monitoring and Reporting Review

Capital Projects:

We interviewed employees to gain an understanding of the process to monitor construction progress, the capital project budget, and capital project payments. We also reviewed the Final Cost Report and FP-CSC - *Certificate of Substantial Completion* to ensure that both documents were properly completed and approved by the architect and District for the capital projects noted below.

- Cantiague Elementary School – *Project #28-05-15-03-0-005-015*
- George Jackson Elementary School – *Project #28-05-15-03-0-001-013*
- Robert Seaman Elementary School – *Project #28-05-15-03-0-014-011*
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Observation

We noted that the Assistant Superintendent for Business properly tracks and monitors the budget and payments within the District's accounting system. There was also a properly completed and approved FP-CSC - *Certificate of Substantial Completion* and Final Cost Report maintained by the District for each project.

No recommendation at this time.

Facilities – Work Orders and Maintenance:

We reviewed fifteen (15) work order requests entered into the School Dude software system between July 1, 2017 and October 31, 2017 to determine that work order requests are properly documented, approved, and completed timely. We also interviewed the Plant Facilities Administrator regarding routine and preventative maintenance procedures.

Observation

We noted that preventative maintenance schedules are input into School Dude and assigned to employees with requested work orders. The work orders selected for testing were assigned to employees and completed within thirty (30) days of the request.

No recommendation at this time.

VII. Risk Rating and Audit Opinion

Inherent Risk:	High
Control Risk:	Low
Audit Opinion:	Satisfactory

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RISK RATING DEFINITIONS

Inherent Risk – Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal control procedures. Inherent risk includes any risk arising from fraud. As with other risks, inherent risk may be evaluated at various levels of aggregation (e.g. financial statement level, account balance assertion level) and at various stages during the course of the audit (e.g. client acceptance/retention state, audit planning stage, etc.).

***Inherent Risk** is particular to the area being reviewed if there were no controls in place. Thus, if there were no control procedures in place pertaining to the particular area, what is the risk of a material misstatement.*

Control Risk – Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by management’s internal control procedures on a timely basis. Auditors evaluate control risk at the account balance assertion level based on a detailed knowledge of the client’s business. Auditors may evaluate this risk in the second, third, and forth audit stages, namely the audit planning, control testing, and substantive testing stages.

***Control Risk** is particular to the District’s controls currently in place in the area being reviewed. Thus, what is the risk of a material misstatement with the control procedures currently in place.*

Audit Opinion – Based upon the audit work performed and our assessment of the controls within each particular audit area an audit opinion is provided for each audit area from one of the following three (3) categories:

Satisfactory: Controls are operating effectively

Needs Improvement: Controls need improvement for effectiveness

Unsatisfactory: Controls are unacceptable and need immediate improvement

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Auditors Spoke with:

Victor Manuel – Assistant Superintendent for Business Affairs

Michael Hahn – Director of Buildings & Grounds

Christine Comegna – District Treasurer

The following is a narrative, or a sequence of events, which describes the step by step process within the Facilities and Capital Projects function of the Jericho Union Free School District. The narrative was derived from discussions and interviews with key personnel as well as observations of each step in progress. The Facilities and Capital Projects function has been broken down by area for ease of reference, including the following areas:

- I.** General Controls and Governance
- II.** Planning
- III.** Recordkeeping
- IV.** Funding and Payments
- V.** Monitoring
- VI.** Reporting

[Blue = Internal Control](#)

I. General Controls and Governance

- The District's Board of Education approved Policy #5630 *Facilities: Inspection, Operation and Maintenance* on November 17, 2016.
- The policy addresses capital project planning procedures, operations and maintenance of existing facilities, and requires the preparation of a Five-Year Capital Facilities Plan.
- The Director of Buildings & Grounds oversees all custodians, cleaners and maintainers and is ultimately responsible for the maintenance of all District facilities, which includes all buildings and District property.
- The District awarded the request for proposal for architectural/engineering services to John A. Grillo Architect, P.C. in 2016.
- The District utilizes School Construction Consultants, Inc. as its construction manager.
- The architect and construction manager report to the Assistant Superintendent for Business Affairs and the Director of Buildings & Grounds.

II. Planning

Capital Projects:

- Every five (5) years, the Director of Buildings & Grounds and architect tour each school building and document the conditions and findings, if any.
- A building condition survey report and improvement priorities list is prepared and then reviewed with the Assistant Superintendent for Business Affairs and Superintendent.
- The improvement priorities list is determined by health and safety issues, the total annual budget, and options for funding.
- These reports are also used by the Assistant Superintendent for Business Affairs to prepare and update the District's Five-Year Capital Facilities Plan.

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- Proposed capital projects and estimated costs are presented to the Board of Education for voter approval.
- The estimated capital project costs include all architect fees, pre-construction testing, if necessary, and an estimate of construction costs.
- Once the proper approvals have been obtained, a standard format Letter of Intent indicating the District's intent to begin a new capital project is prepared by the architect and sent to the New York State Education Department ("NYSED") by the Assistant Superintendent for Business Affairs.
- The NYSED reviews and approves the District's Letter of Intent and capital project plans and issues the District a building permit and Form SA-4 – *Notification of Building Project* with a capital project number.
- The District prepares a competitive bid packet for contractor services of greater than \$35,000 in accordance with Policy #6700 *Purchasing*.
- The architect creates preliminary plans and specifications that are submitted to and approved by the NYSED. These plans are used by the District to create the bid specifications once approved.
- Bid responses are collected by the Account Clerk in the Business Office. The Account Clerk will record the date received and maintain the package until the bid opening.
- The Assistant Superintendent for Business Affairs, Director of Buildings & Grounds, Account Clerk, architect, and construction manager attend the bid opening, analyze pricing and services, and select the lowest responsible bidder. A recommendation is then given to the Superintendent and Board of Education to approve the lowest responsible bidder.
- Upon Board of Education approval, the District and vendor enter into a contract as per the specifications included in the bid. [The Board of Education President approves and signs the contract.](#)
- The District Treasurer completes NYSED Form SA-139 – *Request for Building Project Data* based upon the cost information within Form SA-4 – *Notification of Building Project* and submits to the NYSED.
- The Assistant Superintendent for Business Affairs establishes the budget in the District's accounting software as per the capital project budget and Board of Education approved contracts, and the District Treasurer will create Capital Fund account codes to be used by the specific projects.

Facilities:

- The Director of Buildings & Grounds prepares the annual facilities budget based on prior year expenses and anticipated future needs including any additional staff support, repairs, maintenance, or equipment.
- The building condition survey report and improvement priorities list is also used when preparing the budget as not all items require a formal capital project.
- [There is always an allowance for any unexpected or emergency health and safety issues to ensure that the issues can be corrected promptly and efficiently.](#)
- The Director of Buildings & Grounds will review the budget calculation and supporting documentation with the Assistant Superintendent for Business Affairs.

III. Recordkeeping

Capital Projects:

- Copies of planning documents prepared by the architect are maintained by the Director of Buildings and Grounds. Files include, but are not limited to the following documents:
 - a. NYSED Form FP-CL - *Checklist for Application for Building Permit and Examination and Approval of Final Plans and Specifications*

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- b. NYSED Form FP-EEB – *Evaluation of Existing Building*
 - c. State Historic Preservation Office correspondence
 - d. NYSED Form FP-F – *Application for Examination and Approval of Final Plans and Specification*
 - e. NYSED Form FP-SC – *Scope of Proposed Project*
 - f. Asbestos Certification or Non Asbestos Letter
 - g. NYSED Form FP-SGIS – *State Smart Growth Public Infrastructure Impact Statement*
 - h. NYSED Form FP-CCC – *Code Compliance Checklist*
 - i. NYSED Form FP-OPRHP-LOR – *New York State Office of Parks, Recreation and Historic Preservation Project Review Exemption Based on the Letter of Resolution*
 - j. NYSED Form FP-SSI – *Statement of Special Inspections and Tests as required by the Building Code of New York*
 - k. NYSED Form FP-CFP – *Certification of Final Building Plans*
 - l. Building Permit and Plans and Specifications
- The District Treasurer maintains a folder for each capital project that includes, but is not limited to, the following:
 - a. NYSED Form SA-4 – *Notification of Building Project*
 - b. NYSED Form SA-130 – *Cost Allowances & Bond Percentage For Building Aid Purposes*
 - c. NYSED Form SA-139 – *Request for Building Project Data*
 - d. NYSED Form FP-CSC – *Certification of Substantial Completion*
 - e. NYSED Form FP-FCR – *Final Cost Report*
 - f. Vendor contracts and warranties
 - g. Properly approved change orders and supporting documentation
 - h. Miscellaneous correspondence with NYSED and/or vendors
 - A separate folder is maintained for each project. Planning documents are completed by the architect and maintained by the Director of Buildings and Operations. Copies are also maintained by the architect. Cost related forms are prepared by the Treasurer and maintained in the Business Office.
 - All original capital project bid specifications and responses are maintained in the Business Office. Vendor payments are maintained with cash disbursements for the school year in which they were paid.

IV. Funding and Payments

Capital Projects - Funding Sources:

- The District funds capital projects through the Capital Reserve or General Fund (via transfer to Capital Fund).
- The total annual budget, estimated costs for capital projects, and any transfers from the capital reserve fund must be presented to and voted on by the taxpayers of the Jericho Union Free School District at the annual budget vote.
- A change order must be prepared when actual construction costs vary from the approved Form SA-4 – *Notification of Building Project*. Changes to the project budget may arise due to unforeseen circumstances and construction site conditions that could not have been planned for and included in the initial budget.
- Change orders are submitted by the contractor to the architect. The architect will review and approve the change order request if the change is necessary to complete the project.

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- The architect, contractor, and Superintendent must approve and sign the change order. Additionally, the change order is presented to the Board of Education for approval before being submitted to the NYSED for approval.
- Once a change order has been approved by the Board of Education, a new purchase order can be created or an existing purchase order can be increased or decreased.
- The District Treasurer will prepare and submit Form FP-FI *Request for Revision of Financial Information* to the NYSED for any differences between the SA-4 *Notification of Building Project* and the awarded contract due to any change orders.
- The Assistant Superintendent for Business Affairs tracks the budget, estimated costs, and payments for each capital project in the District's accounting system.

Capital Projects - Payments to Vendors:

- Vendors submit invoices for construction to the architect and construction manager for approval. Invoices are prepared using the American Institute of Architects ("AIA") documents G702 - *Contractors Application for Payment* and G703 - *Continuation Sheet*.
- If the invoice includes labor charges, the vendor must submit certified payroll information as supporting documentation to ensure that all workers are paid the prevailing wage in accordance with New York State Labor Law Sec. 220(3).
- The architect and construction manager review the invoice, verify the appropriate scope, status, and documentation, and sign off on the invoice.
- The architect forwards the vendor invoice to the Director of Buildings & Grounds for review prior to payment processing. The Assistant Superintendent for Business Affairs also reviews and approves all contractor invoices.
- All invoices are reviewed to ensure that the proper approvals have been obtained, the charges reflect contract rates and percentages and accurately reflect the type and amount of work that has been completed.
- The Assistant Superintendent for Business Affairs also receives invoices for professional services, including architect and construction manager fees.
- Once all required approvals have been obtained, the Account Clerk enters the invoice into the District's accounting system for payment.
- A five percent (5%) retainer is required to be held for capital project contracts. The retainer fee is held by the District to ensure that the capital project construction will be properly completed by the vendor. Once the architect certifies that the work has been completed and the final invoice is approved, the retainer fee can be released by the District.
- In the event that the construction was not done properly, the District will keep the retainer fee until the construction is completed to the District and architect's satisfaction.
- The Claims Auditor reviews and approves all capital project payments prior to their release for payment and the Board of Education reviews approved check warrants on a monthly basis.

Facilities- Overtime Payments to Employees:

- All buildings and grounds staff, which includes custodial and maintenance employees, are able to work and be paid for overtime as per the bargaining unit agreement. The rate of pay is outlined in the bargaining unit agreement.
- Employees work overtime only when it is necessary and verbal approval has been given by the Director of Buildings and Grounds.
- Buildings and Grounds Department employees utilize an electronic time card to punch in and out for the workday.

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- In addition to the time cards, employees record the total overtime hours worked per day on a weekly overtime tracking sheet for each school building.
- The employee must also submit an overtime report that states the date worked, time, and description of work performed.
- Electronic time cards and overtime reports are reviewed by the Director of Buildings and Grounds.
- The Buildings and Grounds Department Account Clerk prepares an overtime report which lists the employee's name and total overtime hours for the pay period.
- [The Director of Buildings and Grounds reviews and approves the overtime report before it is sent to the Payroll Department for processing.](#)

V. Monitoring

Capital Projects:

- The architect, construction manager and contractors report to the Board of Education but are primarily in contact with the Assistant Superintendent for Business Affairs and Director of Buildings & Grounds.
- The Assistant Superintendent for Business Affairs and Director of Buildings & Grounds oversee capital project construction and progress throughout the course of the capital project.
- The Assistant Superintendent for Business Affairs or Director of Buildings & Grounds will contact the architect or contractor on an as needed basis to discuss any discrepancies or disagreements regarding the capital project.
- Weekly meetings are held with the Assistant Superintendent for Business Affairs, Director of Buildings & Grounds, architect, construction manager and contractor(s). Additional meetings may be held depending on the size of projects or the number of ongoing projects.
- Meeting minutes are taken by the architect or construction manager and sent to all parties that attended the meeting.
- The District Treasurer maintains a tracking spreadsheet that includes financial information and status of all projects.
- The Assistant Superintendent for Business Affairs provides the Superintendent and Board of Education with periodic updates regarding the status of current capital projects.

Facilities - Work Orders and Maintenance:

- The Director of Buildings & Grounds is responsible for ensuring that all District work orders are properly completed.
- The Director of Buildings & Grounds communicates with staff, which includes custodians, cleaners, and maintainers, at each building frequently regarding routine maintenance, preventative maintenance, and work order requests.
- [In addition, staff will update the Director of Buildings & Grounds regarding building conditions as situations arise. This includes an update on work orders, all major repairs, projects in process, and safety issues as they are discovered.](#)
- Work order requests are processed through the School Dude software system. All District employees have access to School Dude to submit work order requests.
- School Dude sends a notification email of a new work order to a District inbox that is used by the Buildings and Grounds Department and the Information Technology Department.
- The Director of Buildings and Grounds, Maintenance Supervisor and two (2) clerical employees will also receive an email alert that a new work order was submitted.
- Both departments are responsible for reviewing the notifications and assigning the tasks that are applicable to their department's job duties.

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- Once a work order is complete, the employee completing the task updates the work order in School Dude.
- The following information is tracked in School Dude: the work order identification number, requestor, description of the work order, priority, status, location, request date, completion date, action taken, and individual who was assigned the task.
- The Director of Buildings and Grounds will review any complex requests to ensure the work was completed as requested.
- The Director of Buildings & Grounds evaluates routine and preventative maintenance needs throughout the District and determines the most efficient and cost effective way to complete tasks.
- The District follows the manufacturer's maintenance recommendations and inputs these maintenance schedules into School Dude.
- School Dude will automatically create a work order when the maintenance is due. The work order is then assigned to the employee who will complete the task.

VI. Reporting

- Upon completion of the capital project construction, the Architect files Form FP-CSC – *Certification of Substantial Completion* with the NYSED.
- A copy of Form FP-CSC is sent to the District and another copy is maintained by the architect.
- Once the District receives Form FP-CSC, a walk through observation of the construction site is completed by the architect, construction manager, the Director of Buildings & Operations, and the Assistant Superintendent for Business Affairs to ensure that the project has been completed as per project specifications.
- If the project has not been completed to the District's satisfaction or there are open items, a punch list is created and must be completed before the District will release the final payment for the project.
- The District Treasurer utilizes payment information from the District's accounting system and the spreadsheets maintained for each capital project to track the funding, budget, payments and change orders to complete the Final Cost Report and ensure that all expenditures are properly accounted for and included in the Final Cost Report.
- If total actual expenditures reported on the Final Cost Report are greater than the approved amount on Form SA-139 – *Request for Building Project Data* then the District must complete and submit Form FP-FI – *Request for Revision of Financial Information*.
- Any increases or decreases from the capital project as per Form SA-4 – *Notification of Building Project* must also be included on the Final Cost Report.
- The District Treasurer submits all Final Cost Reports to the NYSED, once reviewed and approved by the Assistant Superintendent for Business Affairs and Superintendent.