



Town of Caneadea

Internal Controls Over Procurement

Report of Examination

Period Covered:

January 1, 2011 — May 31, 2012

2012M-133



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
PROCUREMENT	5
Recommendations	7
APPENDIX A Response From Local Officials	8
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2012

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Caneadea, entitled Internal Controls Over Procurement. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Caneadea (Town) is located in Allegany County and has a population of approximately 2,500. The Town is governed by an elected Town Board (Board) comprised of a Town Supervisor (Supervisor) and four Council members. The Board is the legislative body responsible for the overall management of the Town, including oversight of the Town's operations and finances. The Supervisor serves as the Town's chief executive and chief fiscal officer. As chief fiscal officer, the Supervisor is responsible for overseeing or performing most of the Town's financial duties.

The Board provides guidance through the enactment of policies and procedures, adoption of the annual budget, and approval of all contracts. The Supervisor as chief executive officer is responsible for the implementation of policies established by the Board. The Highway Superintendent is also responsible for implementing Board policy and overseeing Highway Department operations in compliance with statutory requirements.

Objective

The objective of our audit was to evaluate the internal controls over procurement and addressed the following related question:

- Are internal controls over procurement appropriately designed and operating effectively to safeguard Town assets?

Scope and Methodology

We evaluated the Town's procurement for the period January 1, 2011 through May 31, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they have taken corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your

CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Procurement

Town officials are responsible for designing internal controls to safeguard Town assets and ensure that goods and services of the highest quality are obtained at the lowest possible price, in compliance with Town policies and legal requirements. This helps to ensure that taxpayer dollars are expended in the most efficient manner. Town officials also should ensure the prudent and economical use of the Town's moneys when procuring goods and services, and should guard against favoritism, extravagance, fraud, and corruption. It is important that Town policies are current and distributed to department heads, describe the procurement methods to be used and when to use each method, and address the maintenance of adequate documentation to support and evidence procurement decisions, including written agreements.

The Board did not ensure that Town officials followed the Town's procurement policy or statutory bidding requirements. Had the Town sought competition for commodities it purchased that exceeded Town and State bidding thresholds during our audit period, it could have saved over \$9,700. In addition, Town officials awarded professional service contracts for legal services and municipal insurance without the benefit of competition. Moreover, there was no indication that the Board evaluated its procurement policy since its adoption nearly 20 years ago, in 1993.

Competitive Bidding — General Municipal Law (GML) requires that purchase and public work contracts in excess of \$20,000 and \$35,000, respectively, during a fiscal year be publicly advertised for bids and awarded to the lowest responsible bidder. The Town's procurement policy requires that the department head seeking the purchase of goods or services exceeding \$5,000 but less than the competitive bidding limits must solicit bids from at least three vendors. Both the policy and GML require the Board to review the policy annually. In lieu of advertising for bids, the Town may use certain contracts awarded by the New York State Office of General Services or the county.

Town officials did not comply with GML and Board policy requiring competitive bidding for purchases. We reviewed all highway purchases made during the audit period, which totaled \$552,600, to identify procurements of goods and services that were subject to GML's competitive bidding requirements or the Town's procurement policy (over \$5,000). Our review identified purchases totaling

\$354,839 that exceeded bidding requirements,¹ with \$197,294 of these purchases not publicly advertised for bids. Examples include:

- Asphalt/paving products (\$102,263)
- Diesel fuel (\$64,925)
- Regular unleaded gasoline (\$21,331).

The Town could have saved over \$9,700 by using State and county contracts as follows:

- Asphalt/paving products (\$7,348)
- Diesel fuel (\$1,801)
- Regular unleaded gasoline (\$597).

The Highway Superintendent told us he did not make the asphalt/paving purchases from the county contract vendors because the products were not available when he needed them. Had the Highway Superintendent ordered these products in advance or planned work based on the availability of the products needed, he likely would have saved the Town money. For example, the Town paid over 10 times the unit price of the county bid award vendor for calcium chloride, accounting for \$6,136 of the \$7,348 in unrealized cost savings.

The Supervisor told us that the Board has not updated its procurement policy² since approving it in August 1993 and has not routinely communicated the policy to department heads. Furthermore, the Highway Superintendent told us that he did not know what was required by the Town's procurement policy and that he only occasionally solicits bids for the purchase of equipment if the purchase exceeds the GML competitive bidding limits. He also stated that he chooses vendors based on their dependability and the availability of their product. The failure to seek competition does not provide taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner and without favoritism.

Professional Services — GML does not require competitive bidding for professional services that involve specialized skill, training and expertise; use of professional judgment or discretion; and/or a high

¹ \$331,269 exceeded GML bidding requirements in 2011 and \$23,570 in the first five months of 2012.

² The Board adopted a new procurement policy on June 13, 2012, giving the Board or appropriate sub-committee discretion to determine if purchases over \$5,000 and under statutory bidding requirements will be subject to bid.

degree of creativity. The Town's procurement policy requires the solicitation of at least three bids for the acquisition of all goods and services exceeding \$5,000 annually, and sound business practices include obtaining competition, such as a request for proposal (RFP) process for professional services. An RFP process is an effective means to procure desired services at the best price while documenting how the selection of providers was made.

We reviewed payments made to service providers for legal services and municipal insurance during our audit period with total annual payments greater than \$5,000. The Board did not solicit bids or use RFPs prior to obtaining legal services or municipal insurance that totaled \$26,515 and \$56,386, respectively, for the audit period.

The Town Supervisor told us that he is very satisfied with these service providers and that he does not want to use any other for legal services and municipal insurance. The Supervisor also stated that the Town is not required by GML or the Town's procurement policy to solicit competition for professional services or insurance. He stated that if the Town's procurement policy required him to seek competition for these services, he would pass a resolution to eliminate this requirement. The reluctance to use an RFP process diminishes Town officials ability to provide taxpayers with assurance that services are procured in the most prudent and economical manner, and without favoritism.

Recommendations

1. The Board should monitor compliance with GML and the Town's adopted procurement policy to ensure that officers and employees follow requirements when procuring goods and services and to ensure that goods and services are obtained when needed at the expected quality and most competitive price.
2. The Board should review the procurement policy annually, update it as necessary, and communicate the policy to department heads.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.

TOWN OF CANEADEA

Box 596
CANEADEA, NY 14717

PHILIP G. STOCKIN, *Supervisor*
TROY R. MARTIN, *Deputy Supervisor*

KRISTINA M. MALE, *Town Clerk*
Phone and Fax 585-365-2928
TDD-711

October 11, 2012

Office of the State Comptroller
295 Main St., Suite 1032
Buffalo, NY 14203-2510

Re: Unit Name: Town of Caneadea
Audit Report Title: Internal Controls Over Procurement
Audit Report Number: 2012M-133

Audit Response Letter and Corrective Action Plan (CAP)

Audit Response

The Town of Caneadea Board has received the Audit Report from the Office of the State Comptroller (OCS). The Board wishes to thank the OCS for the professional manner and courtesy with which the audit process was carried out. The Audit Report is accepted as presented with no objections on our part. The Board appreciates having these issues brought to our attention.

Corrective Action Plan (CAP)

Audit Recommendations:

1. *The Board should monitor compliance with GML and the Town's adopted procurement policy to ensure that officers and employees follow requirements when procuring goods and services and to ensure that goods and services are obtained when needed at the expected quality and most competitive price.*

Action: This has already been discussed by the Board with Department Heads present. Going forward the Board Committees who meet regularly with Department Heads will be proactive in monitoring compliance with GML and the Town of Caneadea's procurement policy. The Board itself will also give this the appropriate oversight.

2. *The Board should review the procurement policy annually, update it as necessary, and communicate the policy to department heads.*

Action: The Board revised, updated, and officially approved a new procurement policy at its regular meeting in June, 2012. An annual review of the procurement policy will take place at the January organizational meeting. All board members and department heads are present at this meeting. "Review of Procurement Policy" has already been added to the agenda for the January meeting.

It is the responsibility of the Town Supervisor to see that both recommendations are carried out.

Signed:



Philip G. Stockin
Supervisor

10-11-12
Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial management, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected procurement for further audit testing.

To accomplish our objective, we interviewed appropriate individuals regarding Town policies and procedures, and reviewed pertinent documents for the period January 1, 2011 to May 31, 2012. The documents reviewed included the abstracts, vouchers, vendor invoices, State contracts, county bids, and written vendor agreements. We reviewed vouchers to determine if purchases exceeded bidding limits. We compared per unit prices to State and county awarded bid prices to determine if savings could have resulted and summarized the savings.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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