



Mid-Hudson Library System Procurement

Report of Examination

Period Covered:

January 1, 2015 – July 8, 2016

2016M-261



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2016

Dear Library System 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 Board 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 Mid-Hudson Library System, entitled 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 New York State 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 Mid-Hudson Library System (Library System) is a nonprofit cooperative public library system which was chartered in 1959 by the New York State Board of Regents and is located in the City of Poughkeepsie in Dutchess County. The Library System serves 66 regional libraries in Columbia, Dutchess, Greene, Putnam and Ulster counties.

The Library System is governed by a 15-member Board of Trustees (Board), elected for five-year terms by the member libraries. The Board is responsible for the general management and control of the Library System's financial affairs. The Board-appointed Executive Director (Director) is responsible for day-to-day operations.

The Library System works with member libraries to ensure the public's right to free access, economical resource sharing and professional library services. Each member library has its own board of trustees and director. The Library System facilitates interlibrary loans between member libraries, coordinates collective purchasing and provides access to e-books and research databases. The Library System also provides consultations, technical assistance, professional development, continuing education and technology support services for its member libraries.

The Library System's primary sources of income are State aid and fees paid by member libraries. Its 2015 budget was approximately \$3.5 million.

Objective

The objective of our audit was to examine the Library System's procurement process. Our audit addressed the following related question:

- Did Library System officials ensure that all goods and services were purchased according to established laws?

Scope and Methodology

We examined the Library System's procurement process for the period January 1, 2015 through July 8, 2016.

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 Library
System Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Library System officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Library System officials generally agreed with our recommendations and indicated they planned to initiate 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 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 Library System's office.

Procurement

General Municipal Law (GML) generally requires “political subdivisions” and agencies thereof to award purchase contracts in excess of \$20,000 to the lowest responsible bidder or, in certain circumstances, on the basis of “best value.”¹ Since member public libraries are subject to GML requirements, the purchase of items by the Library System for or on behalf of member public libraries is subject to GML bidding or “best value” requirements if the purchase would have been subject to bidding if it were made directly by the public library. Procurements exempt from competitive bidding include purchases made from State contracts, emergency purchases, sole-source purchases and professional services. GML also requires member public library boards to adopt internal policies and procedures for the purchase of goods and services not required by law to be procured by competitive bidding, in a manner to assure the prudent and economical use of public moneys.

It is important that Library System officials adopt an adequate procurement policy to provide guidance to Library System personnel when making purchases. The policies and procedures must specify when alternative proposals or quotes for goods and services should be used and when each method of procurement will be used, and should require adequate documentation of actions taken in connection with each method of procurement. The Library System’s purchasing policy needs to be improved because it does not address what internal procedures to use for purchases that do not require competitive bidding. As a result, Library System personnel do not have adequate guidance when making purchases on behalf of the member public libraries.

We examined all purchase totaling \$372,348 made by the Library System on behalf of its member public libraries during our audit period.² Most purchases were made in accordance with GML;

¹ Entities governed by GML may elect to award “purchase contracts” that exceed the statutory threshold (i.e., \$20,000) to a responsive and responsible offerer on the basis of best value as an alternative to an award to the lowest responsible bidder. However, the entity must first authorize the use of best value by adopting a local law, rule, regulation or resolution, as the case may be, at a public meeting. For this purpose, best value is defined, in part, as a basis for awarding contracts to the offerer that “optimizes quality, cost and efficiency, among responsive and responsible offerers.” In assessing best value, nonprice factors may be considered when awarding the purchase contract. However, when possible, the basis for a best value award must reflect objective and quantifiable analysis.

² See Appendix B for our methodology.

however, the Library System does not verify that a vendor quote is in agreement with State contract prior to ordering. Consequently, minor errors in pricing occurred. The Library System made 33 purchases totaling \$56,146 for computers and computer related equipment. Except for the minor discrepancies, which we discussed with Library System officials, all the computer and computer-related equipment purchases were made using State contract pricing. Because the Library System does not verify State contract pricing, there is a risk that it may not get the best possible price when making purchases for member libraries.

Recommendations

Library System officials should:

1. Modify the Library System's procurement procedures to verify State contract pricing when purchases are made using State contracts on behalf of member public libraries.

The Board should:

2. Modify the Library System's procurement policy to include provisions for purchases below the competitive bidding threshold and purchases of goods and services not subject to competitive bidding, on behalf of member public libraries.

APPENDIX A

RESPONSE FROM LIBRARY SYSTEM OFFICIALS

The Library System officials' response to this audit can be found on the following pages.



Mid-Hudson Library System

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September 22, 2016

Ms. Tenneh Blamah
Chief Examiner of Local Government and School Accountability
Office of State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Ms. Blamah:

The Mid-Hudson Library System ("MHLS or "the System") has received the Office of the State Comptroller's draft Report of Examination for the period January 1, 2015 – July 8, 2016. Please accept this submission as the System's response to the Report, as well as its Corrective Action Plan.

We have reviewed the findings made by the Office of the State Comptroller ("OSC") and we agree with and accept the recommendations made. As the Report notes, MHLS needs to modify MHLS procurement procedure to verify State contract pricing when purchases are made using State contract on behalf of member public libraries; and MHLS needs to modify the MHLS procurement policy to include provisions for purchases below the competitive bidding threshold, and purchases of goods and services not subject to competitive bidding, on behalf of member public libraries.

Toward those ends, MHLS has taken immediate action to respond to the OSC recommendations. We have set forth in Attachment A the System's planned corrective actions in response to each of the two recommendations made in the Report.

MHLS appreciates the guidance and information provided by OSC. It is of utmost importance to MHLS to use public funds in a prudent and cost-effective manner to ensure the best possible services at the lowest cost.

Sincerely,

Tom Sloan
Executive Director



Attachment A
Corrective Action Plan

Unit Name: Mid-Hudson Library System
Audit Report Title: Report of Examination - Period Covered: January 1, 2015 – July 8, 2016.
Audit Report Number: 2016M-261

Audit Recommendation 1: Modify MHLS procurement procedure to verify State contract pricing when purchases are made using State contract on behalf of member public libraries.

Implementation Plan of Action: MHLS has implemented a procurement procedure to verify State contract pricing when purchases are made using State contract on behalf of member public libraries. The procedure is:

- (1) Complete the column on the purchasing order form, recording if an item is on State Contract or is not on State Contract.
- (2) If the item is on State Contract, the State Contract number will be recorded in the column.
- (3) If the item is on State Contract, the Dell quoted prices will be checked against the Dell pricing reported on the Dell spreadsheet for items on the State Contract.
- (4) If the item is not on State Contract, the appropriate procedure stated in the MHLS Purchasing Policy will be used for purchase and will be cited.

Implementation Date: The modified procurement procedure to verify State contract pricing when purchases are made using State contract on behalf of member public libraries was approved by the MHLS Board of Trustees at their meeting on September 14, 2016.

Person Responsible for Implementation: The MHLS Executive Director and MHLS Staff are responsible for implementing this plan of action.

Audit Recommendation 2: Modify the MHLS procurement policy to include provisions for purchases below the competitive bidding threshold, and purchases of goods and services not subject to competitive bidding, on behalf of member public libraries.

Implementation Plan of Action: Based on the recommendation of the MHLS Finance Committee, the MHLS Board of Trustees approved a revised MHLS procurement policy which provides provisions for purchases below the competitive bidding threshold, and purchases of goods and services not subject to competitive bidding, on behalf of member public libraries.

Implementation Date: A revised MHLS procurement policy to include provisions for purchases below the competitive bidding threshold, and purchases of goods and services not subject to competitive bidding, on behalf of member public libraries was approved by the MHLS Board of Trustees at their meeting on September 14, 2016.

Person Responsible for Implementation: The MHLS Board of Trustees, the MHLS Executive Director, and MHLS Staff are responsible for implementing this plan of action.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Library System's procurement process. To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed key Library System officials to gain an understanding of the purchasing process.
- We reviewed the Library System's policies and procedures related to procurement.
- We reviewed the check register payments from our audit period for purchases made on behalf of member libraries and determined whether officials used a competitive method for procuring the services. We reviewed the related claims packages (containing invoices, payment vouchers, purchase orders, packing slips, etc.) and discussed with officials how the vendors were selected.

We conducted this performance audit in accordance with 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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