



Town of Villanova Purchasing

Report of Examination

Period Covered:

January 1, 2013 — January 24, 2014

2014M-52



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2014

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 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 Town of Villenova, entitled Purchasing. 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 Villenova (Town) is located in Chautauqua County and serves a population of approximately 1,100 residents. The Town is governed by an elected Town Board (Board) comprised of a Town Supervisor (Supervisor) and four council members. The Board is responsible for the general management and control of the Town's financial affairs. The Town provides various services to its residents, including street maintenance, snow plowing and general government support. For the 2014 fiscal year, budgeted appropriations total more than \$775,000, which will be funded primarily by property taxes and State aid.

The Highway Department (Department) has three full-time employees who are supervised by an elected Highway Superintendent (Superintendent). The Superintendent is responsible for overseeing all Highway operations, such as maintaining Town roads, bridges and culverts, and providing snow removal services. The Superintendent is responsible for approving all Department purchases, which are then submitted to the Board for audit and approval for payment.

Objective

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

- Are controls over purchasing operating effectively?

Scope and Methodology

We examined internal controls over purchasing for the period January 1, 2013 through January 24, 2014.

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 is included in Appendix B of this report.

Comments of Town 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 the findings and recommendations and indicated that they are taking 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.

Purchasing

The Board and Superintendent are responsible for ensuring that the Town purchases the desired quality and quantity of goods and services at the lowest cost. To accomplish this, the Board should adopt a procurement policy and review that policy on an annual basis to ensure it reflects the Board's current expectations for procurement activity. Town officials should also evaluate State and county contracts when available.

The Board adopted a procurement policy that requires an unspecified number of oral quotes for purchases and public works contracts aggregating between \$250 and \$2,999 and written quotes for aggregate purchases between \$3,000 and \$9,999 and public works contracts between \$3,000 and \$34,999.¹ The policy requires bids² for aggregate purchases over \$10,000 and public works contracts over \$35,000.

Controls over purchasing are not always operating effectively. We found that Town officials did not solicit quotes for certain purchases, as required by the Town's procurement policy. In addition, one contract was prepaid, purchase prices were not verified to bid prices and certain utilized contracts were not authorized by Board resolution. The Supervisor indicated that the Superintendent was allowed to make purchases using State or county contracts. However, she did not realize the Board needed to authorize the contracts by resolution. As a result of the various deficiencies, the Town may have not always received the best price for goods and services.

We reviewed documentation for four types of goods and services totaling \$54,140 for compliance with the Town's procurement policy for purchases under the State bidding limits and noted the following:

- No written quotes were solicited for tree removal services totaling \$26,400. In addition, \$13,200 of that amount was improperly paid prior to the work being completed and prior to Board approval. The Superintendent stated that the prepayment was made because these services were funded with State aid, which required payment in 2013. However, the claim was paid on August 8, 2013, and, according to the vendor's invoice, the work was expected to be completed by August 10, 2013. No documentation was available for our

¹ Or requests for proposals for public works contracts between \$5,000 and \$34,999

² State law requires that bids be solicited for purchases over \$20,000 and public works contracts over \$35,000.

review to evidence when the work was actually completed. Claims should not be paid until work is performed and the Board authorizes payment.

- No written quotes were solicited for excavating work totaling \$21,087.
- No written quotes were solicited for carbide packages³ totaling \$3,600 and plow blades totaling \$3,053.

We also reviewed documentation for five types of goods totaling \$167,182, where the aggregate amount exceeded State bidding limits, to verify compliance with General Municipal Law (GML) and whether the awarded contract price was paid. We found the following:

- Vehicle fuel totaling \$40,689 was purchased on a Town bid that was based on the rack price⁴ as of October 31, 2012. However, the Board did not properly authorize the award of the contract by Board resolution and the Superintendent could not ensure that the price charged by the vendor was in agreement with the bid. The Superintendent should obtain the rack price for each purchase date so that the change in price can be used to verify the amount billed by the vendor.
- Road salt totaling approximately \$13,052 was purchased from a State contract vendor. The Town paid \$9,012 in agreement with the State contract price. The Superintendent stated that the remaining \$4,040 in purchases were made at a higher rate due to the Town exceeding the allowable purchase limit set forth in the contract. However, the Town did not retain documentation regarding the allowable purchase limit amount. In addition, the Board did not properly authorize the use of the State contract by Board resolution.
- Road materials totaling \$23,441 were purchased from a county contract vendor at contracted prices. However, the Board did not properly authorize the use of these contracts by Board resolution.
- A truck costing \$15,000 was purchased from another town and was properly authorized by Board resolution.
- A truck costing \$75,000 was properly bid and the Board accepted the sole bid by resolution.

³ Carbide package includes blades, shoes and hardware

⁴ Revisions to the original contract price shall be based on rack prices published in the Journal of Commerce Pricing.

The primary purpose for obtaining bids and quotes is to encourage competition in the procurement of supplies, equipment and services. The appropriate use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner, that goods and services of desired quality are acquired at the lowest price and that procurement is not influenced by favoritism, improvidence, extravagance, fraud or corruption.

Recommendations

1. The Board should monitor for compliance with the adopted procurement policy during its audit of claims, ensuring that quotes are solicited and retained where required.
2. The Board should annually review the procurement policy as required and consider including the number of quotes that are required to be obtained.
3. The Board should award Town bids and authorize the use of State or county bids by resolution.
4. The Superintendent should compare claims to contracted bid prices and quotes to ensure that the Town is billed at the appropriate rates.

APPENDIX A
RESPONSE FROM TOWN OFFICIALS

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

TOWN OF VILLENOVA

April 10, 2014

██████████ Principal Examiner
Office of the State Comptroller
295 Main Street, Room 1031
Buffalo, NY 14203-2510

Re: Town of Villenova Audit Response and Corrective Action Plan Letter
Audit period January 1, 2013 – January 24, 2014

Dear ██████████

This letter is to serve as the official acknowledgement of the receipt and review of the Draft Audit Report received by the Town of Villenova on April 1, 2014. This letter also confirms that the Supervisor and the Town Board agree with the draft audit as presented by your office.

Corrective Action Plan:

1. On February 12, 2014, the Town Board by resolution approved a new town procurement policy with the required verbal or written/fax quotes listed. Also, a Procurement Work Sheet will be added to the voucher when it is submitted to the board for their audit review and approval for payment. We have, therefore reviewed and implemented this new procurement policy as to board approval.
2. The Town Board at their January organizational meeting will review the procurement policy including the number of quotes that are required to be obtained making any changes or improvements as needed.
3. By Town Board resolution April 9, 2014, the board will award Town bids and authorize the use of State or County bids by resolution for any and all transactions that come before the town board.
4. The Town Highway Superintendent will compare claims to contracted bid prices and quotes to ensure the town is billed at the appropriate rates. The Superintendent is required to keep records for any future audits by the town board.

The town appreciated the fiscal oversight that your office, the Office of the State Comptroller has provided to us. Your audit has and will improve our operations as a municipal government.

Respectfully submitted,

Yvonne M. Park
Supervisor

1094 Butcher Road, South Dayton, NY 14138

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, and payroll and personal services.

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 or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk.

We selected the procurement process to determine whether Town officials were purchasing goods and services in accordance with the adopted procurement guidelines and if payments were made in accordance with the bids or quotes. To accomplish the objective of the audit and obtain valid audit evidence, we interviewed officials, tested selected claims and examined pertinent documents. Our procedures included the following steps:

- We reviewed Board minutes for authorizing resolutions and relevant State and county contracts to determine the awarded vendors and contracted prices.
- We selected commodities or services that aggregated over \$3,000, including plow blades, carbide packages, tree removal services and excavation services.
- We selected commodities that aggregated more than State bid limits, including rock salt, fuel, gravel and two trucks.
- We reviewed purchasing records and examined pertinent documents to determine whether purchases complied with GML provisions and the Town's procurement policy. When necessary, we requested additional documentation to ascertain compliance.
- We reviewed paid claims to determine if purchases agreed with the bid rates or quotes.

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.

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