



Town of Warrensburg Procurement

Report of Examination

Period Covered:

January 1, 2012 — December 31, 2013

2014M-96



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	8
APPENDIX A Response From Local Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Warrensburg 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 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 Warrensburg (Town) is located in Warren County (County) and has a population of about 4,100. The Town is governed by an elected five-member Board which comprises four councilpersons and the Town Supervisor, who serves as the chief executive officer, the chief fiscal officer and the budget officer. The Board is responsible for overseeing the Town's operations and finances. These responsibilities include adopting the annual budget and auditing and approving claims for the payment of goods and services.

The Town provides various services to its residents including road maintenance, snow removal, recreation activities, water and sewer services and general government support. The Town's 2013 budget appropriations totaled about \$3.4 million.

The Board adopted a purchasing policy that includes provisions for procuring goods and services within the limits outlined in General Municipal Law (GML). Department heads are responsible for making purchases and following the policy, including obtaining quotes to ensure that goods and services are obtained at reasonable prices from responsible vendors.

Objective

The objective of our audit was to review the Town's purchasing process. Our audit addressed the following related question:

- Does the Town use competitive procedures for the procurement of goods and professional services?

Scope and Methodology

We examined various financial and other records related to the procurement of goods and services for the period of January 1, 2012 through December 31, 2013.

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 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 have initiated, or 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 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 Clerk's office.

Procurement

An effective procurement process helps the Town obtain services, materials, supplies and equipment of the right quality and quantity at the best price and in compliance with the Town's purchasing policy and other applicable legal requirements. By seeking competition, such as obtaining verbal or written quotes from a number of potential vendors, Town officials can ensure that procurement is not influenced by favoritism, extravagance or fraud. GML requires that purchases in excess of \$20,000 and public work contracts in excess of \$35,000 be publicly advertised for competitive bidding. Exceptions to the bidding requirements include purchases costing less than the bidding thresholds or those made from contracts awarded by New York State (State) or the county in which the local government resides.¹

GML further requires that the Town's adopted procurement policy provides guidance for all procurements not subject to competitive bidding, thus assuring taxpayers that public funds are prudently and economically used. Obtaining written proposals or quotes through a request for proposal (RFP) process is an effective way to procure goods and services at the best value and document how service provider selections were made. In addition, when acquiring professional services, the Board and service provider should enter into a written agreement indicating the contract period, services to be provided and basis for compensation.

The Town's procurement process was generally effective for obtaining goods and public works contracts subject to the policy's bidding thresholds. In most instances, the Town purchased equipment and commodities through State or County contracts or by competitively bidding. However, we found one instance where Town officials did not follow these procedures and paid \$2,200 more than necessary for road sand from a local vendor. Additionally, Town officials did not always ensure that written documentation was maintained for the quotes obtained for purchases that were not required to be competitively bid. Finally, officials did not develop and follow formal procedures for obtaining professional services and did not have written contracts in place with all professional service providers. For example, Town officials paid an engineering firm approximately \$117,000 without the benefit and protection of a contractual agreement. As a result, the best value for goods and services may not have been obtained, resulting in unnecessary costs to Town taxpayers.

¹ As an alternative to soliciting competition, towns may "piggyback" on contracts that have been extended to local governments by certain other governments. Use of these contracts constitutes an exception to the competitive bidding requirements.

Purchasing Policy and Procedures — The Town’s purchasing policy was adopted in 1992 and has not been reviewed or updated annually, as required.² As a result, the Town’s bidding thresholds are more restrictive than GML’s current requirements.³ The policy includes procedures that department heads are required to follow when making purchases that are not subject to competitive bidding. For example, three written quotes must be obtained for purchases costing between \$3,000 and \$9,999 and public work contracts costing between \$3,000 and \$19,999. Additionally, documented verbal quotes are required for purchases costing between \$250 and \$2,999. In the case where the required verbal quotes are not received or cannot otherwise be obtained, the attempt to obtain quotes must be documented.

The Board provides oversight of the Town’s purchasing function by auditing and approving claims. Claims contain documentation including vendor invoices, voucher forms and other documentation related to the purchases, such as evidence the department heads obtained quotes. The Board also reviews and awards the bids, when competitive bidding is required.

We reviewed all 25 disbursements for purchases made during our audit period that exceeded the Town’s purchasing policy’s bidding thresholds to determine if Town officials complied with the policy. These comprised 14 purchases made in 2012 totaling \$589,000 and 11 purchases made in 2013 totaling \$231,000. These purchases included a dump truck, water meters and related parts, a pickup truck and a riding lawn mower. Town officials complied with the procurement policy for 24 of these purchases, which included five purchases from State-awarded contracts, five from County contracts and 14 that were competitively bid.

However, one purchase of road sand from a local vendor for more than \$19,000 did not include evidence that it was competitively bid as required by the policy. The invoice for this purchase indicated this was a “special” purchase made through a neighboring town’s bid award. Officials we contacted at the neighboring town told us that its road sand contract was not extended to the Town. In fact, the neighboring town paid \$.75 per yard less for road sand by competitively bidding than the Town paid for the sand purchased from the same vendor.⁴

² GML requires that the Board review the Town’s purchasing policy annually.

³ The Town’s bidding thresholds are \$10,000 for purchase contracts and \$20,000 for public work contracts. GML was amended to increase the bidding threshold from \$10,000 to \$20,000 for purchase contracts (effective June 22, 2010) and from \$20,000 to \$35,000 for public works contracts (effective November 12, 2009).

⁴ Town officials paid \$6.75 per yard for road sand from the same vendor that the neighboring town awarded a road sand contract to for \$6.00 per yard.

As a result, the Town paid \$19,845 for 2,940 yards of sand, which was \$2,205 more than the amount they would have paid using the bid award referred to on the invoice.

We also reviewed 24 purchases that cost between \$3,000 and \$9,999 to determine if three written quotes were obtained as required by the Town's policy.⁵ We found that the documentation for seven purchases totaling about \$44,000 did not include any evidence that written quotes were obtained. These purchases were for corrugated steel drains, fire hydrants, pipe, road sand and vehicle repairs.

Professional Services — The Town's policy states that professional service providers must be chosen based on many factors, including accountability, reliability, responsibility, skill, education, training, judgment, integrity and moral worth. The policy further states that it may not be in the Town's best interests to solicit quotes because accepting the lowest bid may not necessarily result in receiving quality service. However, without obtaining comprehensive proposals from multiple vendors, Town officials were unable to compare the relevant factors, including total cost, and ensure the most suitable service provider was selected. Although the policy does not address how frequently the Town should request proposals for professional services, periodically requesting such proposals is a good business practice. Otherwise, Town officials and taxpayers cannot be assured that the Town is receiving qualified and necessary professional services as economically as possible. Additionally, written contracts provide protection to ensure that the Town receives the appropriate services for the agreed-upon fees.

We reviewed payments made to all eight professional services providers totaling about \$295,000 during our audit period (e.g., legal, engineering, insurance and computer technical assistance services) to determine if the services were obtained through a competitive process. Town officials did not solicit competition when obtaining these professional services. For example, Town officials paid an insurance company approximately \$65,000 during the audit period without seeking competition.

We also reviewed the payments made to these professional service providers to determine if they were supported by contracts and if the payments conformed to the contracts' terms. We found that the Town had contracts with only five of these service providers. The payments made to these professional service providers conformed to the related contracts. However, Town officials paid an engineering

⁵ Our sample included 24 purchases made during the audit period totaling about \$146,000. For further information on sample selection, see Appendix B.

firm approximately \$117,000 without the benefit and protection of a contractual agreement. After we discussed this with Town officials, a written agreement with the firm was signed in February 2014 for ongoing engineering services related to the Town's water and wastewater operations.

Because Town officials did not seek the appropriate and prescribed methods of competition as required by the purchasing policy and ensure that contracts were in place for all professional service providers, officials cannot be certain that these purchases were obtained for the best value. As a result, there is no assurance that these purchases were the most prudent and economical use of public money.

Recommendations

The Board should:

1. Review its purchasing policy annually and update it as necessary,
2. Ensure that competitive bids are obtained in accordance with the purchasing policy and verify evidence of awarded prices when other municipalities' bids are being used,
3. Ensure that the claims it reviews include sufficient documentation that quotes were obtained as required by the purchasing policy,
4. Provide more specific guidance in the purchasing policy for procuring professional services, including issuing RFPs and
5. Ensure that contracts are in place for all professional service providers.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF WARRENSBURG
"Queen Village of the Adirondacks"

3797 MAIN STREET

WARRENSBURG, NEW YORK 12885-1628

TEL (518) 623-9511

FAX (518) 623-3831

TOWN COUNCIL:

JOHN ALEXANDER

LINDA MARCELLA

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RMC/CMC

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WWW.WARRENSBURGNY.US

June 12, 2014

Office of State Comptroller

One Broad Street Plaza
Glens Falls, New York 12801

Dear Sirs:

Thank you for the time in reviewing the Town of Warrensburg Audit findings. We concur with the Audit findings and have taken the following steps for a corrective action.

1. As stated in the Audit we have a signed contract with our Town Engineer.
2. The Town will adopt a new Procurement Policy at it's June 11, 2014 Town Board meeting and review the policy once a year at the Organizational meeting of the Town Board.
3. The Procurement Policy will be reviewed with all the persons (Department Heads) who have the authority to make purchases.
4. Request for Proposals will be done every three to five years for Professional Services such as Insurance, Legal Services, Computer Technical Assistance and Engineering.
5. The Town Supervisor's office will review all claims and bills first then pass them along to the Town Clerk for payment.

On behalf of the Town of Warrensburg, I want to again say thank you for the professionalism and help the Audit team gave the Town of Warrensburg.

Very truly yours,

Kevin B. Geraghty
Supervisor
Town of Warrensburg

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our objective was to review the Town's process for procuring goods and services to determine if the purchases were made in compliance with the Board's purchasing policy. We also reviewed the policy to determine if it was up-to-date and annually reviewed by the Board. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials to obtain an understanding of the Town's purchasing process.
- We reviewed the Town's adopted purchasing policy.
- We conducted tests of computerized disbursement data to determine whether it was reliable and could be used in audit testing.
- We reviewed all disbursements made for goods and services during our audit period costing more than \$10,000 to determine if these purchases complied with the Town's purchasing policy. To obtain the relevant purchases, we sorted all the disbursement data and excluded those disbursements costing less than \$10,000. We then excluded any disbursements from our sample that were not related to purchases of goods and services (e.g., payments for the NYS retirement system, utilities, bank loans, etc.).
- We reviewed all disbursements made for goods and services during our audit period costing less than \$9,999 and more than \$3,000 to determine if these purchases complied with the Town's purchasing policy. To obtain the relevant purchases, we sorted all the disbursements data and identified only those disbursements which were within the specified dollar range. We then excluded those disbursements that were not related to purchases of goods or services (e.g., payments for utilities, bank loans, other government entities, etc.). From the remaining disbursements, we selected 12 from each year of our audit period. We judgmentally selected our sample to include varying payment amounts made to different vendors across different accounting funds (general, highway, sewer and water).
- We reviewed documentation related to disbursements made to all eight firms providing professional services during the audit period to determine if these services were obtained by soliciting quotes or issuing RFPs. If the services were provided under the terms of written agreements, we compared the payments made with the agreements' terms.

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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