



Village of Canajoharie

Procurement

Report of Examination

Period Covered:

June 1, 2013 – October 31, 2014

2015M-36



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2015

Dear Village 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 Village 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 Village of Canajoharie, 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 Village of Canajoharie (Village) is located in the Town of Canajoharie in Montgomery County. The Village has a population of approximately 2,180 and is governed by an elected Board of Trustees (Board) composed of the Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Mayor serves as the chief executive officer and is responsible for the Village's day-to-day management. The Village Clerk-Treasurer, who is appointed by the Board, is responsible for maintaining the accounting records and for collecting, disbursing and maintaining custody of Village funds.

The Village provides various services to its residents including police and fire protection, parks, recreation, snowplowing, water, sewer, garbage pickup and street maintenance. These services are funded primarily through real property taxes, water and sewer rents and sales tax. The Village's 2014-15 adopted budget totaled approximately \$3.4 million.

Objective

The objective of our audit was to review the Village's procurement practices. Our audit addressed the following related question:

- Did the Board ensure that goods and services were procured in accordance with the Village's adopted procurement policy and applicable laws?

Scope and Methodology

We examined the Village's procurement practices for the period June 1, 2013 through October 31, 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 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 Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village 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 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-Treasurer's office.

Procurement

General Municipal Law (GML) requires competitive bidding for purchases and public works contracts in excess of established dollar limits unless specifically exempted by GML.¹ GML also requires that Village officials adopt written policies and procedures governing procurement for goods and services not subject to the competitive bidding requirements. One of the Board's responsibilities is to establish, implement, monitor and enforce compliance with its procurement policy. This helps ensure that the Village obtains goods and services of the required quantity and quality at competitive prices, and protects against favoritism, extravagance, fraud and corruption. These goals are achieved by purchasing goods and services in compliance with GML and the Village's procurement policy.

Village officials did not always comply with GML and the Village's procurement policy. We found that Village officials made nine purchases totaling \$647,522 without seeking competitive bids and 11 purchases totaling \$19,338 without obtaining quotes, as required by the Village's procurement policy. As a result, Village officials did not receive these goods and services at the lowest cost. Village officials could have saved at least \$59,735 if they had utilized State contracts for certain purchases or sought competition through competitive bids or quotes.

Competitive Bidding

GML currently requires the Board to advertise for bids for purchases in excess of \$20,000 and public works contracts in excess of \$35,000. However, the Village's procurement policy, which was adopted in 2003, requires competitive bids for purchases in excess of \$10,000 and public works contracts in excess of \$20,000. In lieu of advertising for bids, Village officials can make purchases using New York State contracts awarded by the Office of General Services (OGS) or, for certain goods or services, contracts bid by other governments. Purchases of like items that aggregate to competitive bidding thresholds during a fiscal year also must be publicly bid.

The Village made 13 purchases and entered into four public works contracts that exceeded the competitive bidding thresholds established in the Village's procurement policy. We found that eight purchases and one public works contract totaling \$647,522 were not competitively bid when required.² These procurements consisted of

¹ Procurements exempt from competitive bidding include purchases made off State and County contracts, emergency purchases, sole source purchases, professional services and insurance.

² The remaining eight purchases were exempt from bidding requirements because they were made off State contract or were emergencies.

a street vacuum sweeper, two pickup trucks, 900 water meters, fuel, security cameras, supplies for the sewer plant and road work repairs. Village officials told us they did not seek competitive bids because they did not understand the difference between obtaining competitive bids versus obtaining quotes from vendors.³ Village officials indicated they obtained quotes for various purchases, but they did not retain documentation for those quotes. We found that of the eight purchases and one public works contract that required bids, Village officials obtained and kept on file quotes only for one purchase of a pickup truck.

Because Village officials did not seek competitive bids, we compared the prices the Village paid to State contract prices for similar items and determined that the Village could have saved at least \$58,176 if the Village had utilized State contracts for certain purchases or sought competition. For example:

- The Village purchased two pickup trucks in the spring of 2014 from different vendors for \$26,574 and \$28,991 without seeking competitive bids. We determined the Village could have saved a total of \$11,148 if comparable trucks were purchased off State contract.
- The Village purchased 900 water meters from a vendor totaling \$194,275 in 2013 without seeking competitive bids. Village officials told us that they did not bid the water meters because the Village used the same brand of water meters it had purchased in the past. We determined that the Village could have saved at least \$46,630 if comparable water meters were purchased from another vendor.⁴

Village officials did not ensure that competitive procurement procedures were always followed to obtain goods and services. As a result, they did not receive goods and services at the lowest cost.

Written and Verbal Quotations

GML requires the Board to adopt a procurement policy for purchasing goods and services that are not required to be competitively bid and to review and update the policy annually. In lieu of soliciting quotes, Village officials can make purchases using New York State contracts awarded by OGS or, for certain goods or services, contracts bid by

³ Competitive bid solicitations are required to be publicly advertised, received in writing and remain sealed until publicly opened at a scheduled place and date. Competitive quote solicitations are made to vendors who offer prices that may be received in writing or verbally depending on the provisions in the procurement policy.

⁴ We identified comparable water meters at a lower price through an Internet search. We discussed these water meters with the Water Superintendent, who indicated that they were comparable to the ones purchased by the Village.

other governments. The Village's procurement policy requires Village officials to obtain written quotes for purchases between \$3,000 and \$9,999 and public works contracts between \$5,000 and \$19,999. The policy also requires verbal quotes for purchases between \$500 and \$2,999 and public works contracts between \$999 and \$4,999. Furthermore, the policy specifies the requirements for adequate documentation that Village officials have to maintain for emergencies and written and verbal quotations.

We randomly selected and reviewed 22 purchases⁵ totaling \$39,524 that required either written or verbal quotations. We found that Village officials did not obtain written or verbal quotes for 11 purchases totaling \$19,338, as required. One purchase of \$5,054 required two written quotes and 10 purchases totaling \$14,284 required two verbal quotes each. Village officials acknowledged they did not follow their procurement policy requirements for obtaining quotes for these 11 purchases. In addition, Village officials did not keep documentation of the written or verbal quotes they obtained after purchases were made, as required by Village's procurement policy.

We compared the prices paid for the 11 purchases to identical items offered by other vendors and determined the Village could have saved at least \$1,559 if the items were purchased from other vendors. For example:

- Village officials purchased a spare grinder pump for \$2,742. We determined that the Village could have saved \$1,445 if a comparable grinder pump was purchased from another vendor.⁶
- Village officials purchased concrete sealant for \$601. We determined that the Village could have saved \$114 if the concrete sealant was purchased from another vendor.⁷

The Village officials' and employees' failure to obtain quotes in accordance with the Village's procurement policy has resulted in the Village incurring higher costs than necessary for the goods and services purchased.

⁵ Refer to Appendix B, Audit Methodology and Standards for the sample selection process.

⁶ We identified a comparable grinder pump at a lower price through an Internet search. We discussed the grinder pump with the Water Superintendent, who indicated that it was comparable to the one purchased by the Village.

⁷ We identified comparable concrete sealant at a lower price through an Internet search. We discussed the concrete sealant with the Water Superintendent, who indicated that it was comparable to the one purchased by the Village.

Recommendations

The Board should:

1. Ensure that the procurement policy and competitive bid laws are adhered to when purchasing goods or entering public works contracts in excess of the threshold established by policy and/or GML.
2. Review and update the Village's procurement policy annually.
3. Ensure that Village officials and employees comply with the Village's procurement policy when procuring goods and services.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE of CANAJOHARIE

Francis E. Avery, Mayor
75 ERIE BOULEVARD
CANAJOHARIE, NY 13317
(518) 673-5512 Fax: (518) 673-5517

Ronald O. Dievendorf, Deputy Mayor
Jeffrey Baker, Trustee

John Snyder, Trustee
Stanley C. Smith, Trustee

June 3, 2015

Jeffrey Leonard, Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear Mr. Leonard:

We accept the findings of your draft audit and we would like the audit response to also serve as our Corrective Action Plan (CAP).

Unit Name: Village of Canajoharie
Audit Report Title: Procurement
Audit Report Number: 2015M-36

For each recommendation included in the audit report, the following is our corrective action(s) taken:

The Board should:

1. *Ensure that the procurement policy and competitive bid laws are adhered to when purchasing goods or entering public works contracts in excess of the threshold established by policy and/or GLM.* As of January 7, 2015 every Superintendent has been given (and signed for) a copy of the procurement policy and has been given instructions to follow it scrupulously. Failure to do so will result in disciplinary action.
2. *Review and update the Village's procurement policy annually.* Board reviewed, updated, and approved the procurement policy at their January 6, 2015 monthly board meeting. They also agreed to review and update, if necessary, from this point on at each annual organizational meeting in April. They reviewed and re-adopted the procurement policy at their April 1, 2015 organizational meeting.
3. *Ensure that Village officials and employees comply with the Village's procurement policy when procuring goods and services.* Purchase contracts that are not subject to competitive bid, public works contracts that are not subject to competitive bid, and procurements exempted from 103, must have written documentation of oral quotes or

oral estimates. That documentation has to be submitted with the payment voucher before any payment will be made. The Village Board of Trustees in auditing these requests for payment will monitor adherence to the policy.

Yours etc,

Francis E. Avery
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to review the Village's procurement practices. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed Village officials and employees to gain an understanding of the Village's procurement processes.
- We reviewed all purchases where the competitive bidding requirements applied. For each purchase, we reviewed the claims packet, OGS State contracts, bidding notices and Board minutes to determine if the Village competitively bid or purchased from OGS State contracts.
- We reviewed all disbursements and identified all disbursements that were in excess of the requirements for obtained written and verbal quotes according to the Village's procurement policy. We used a random number generator to select 20 disbursements (which included 22 purchases) that required written or verbal quotes. We reviewed claims packets and State contracts and interviewed Village officials and employees to determine if the Village used competitive quotations when necessary.

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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