



Hicksville Water District Competitive Quotations

Report of Examination

Period Covered:

January 1, 2012 — March 31, 2013

2013M-233



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2013

Dear District Officials:

A top priority of the Office of the State Comptroller is to help District 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 of Commissioner governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard District assets.

Following is a report of our audit of the Hicksville Water District, entitled Competitive Quotations. 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 District 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 Hicksville Water District (District) is located in the Towns of Oyster Bay and Hempstead, in Nassau County. The District provides water to about 48,000 customers each year. A three-member elected Board of Commissioners (Board), consisting of a Chairman, a Treasurer, and a Secretary, is responsible for overall governance of the District, including adoption of an annual budget, approval of water rates, and development of key internal policies. The Board also is responsible for auditing all claims against the District prior to payment. The Treasurer serves as the chief financial officer and is responsible for the custody, disbursement, investment, and oversight of all District funds. The District Superintendent (Superintendent) is responsible for reporting to the Board and supervising District personnel.

The District's major revenue sources are real property taxes collected by the Town and customer water meter sales. General fund budgeted expenditures for 2013 totaled \$10 million.

Objective

The objective of our audit was to assess the internal controls over the District's financial operations and other financial related activities. Our audit addressed the following related question:

- Did District officials follow their procurement policy for obtaining quotes for purchases that were not subject to competitive bidding?

Scope and

Methodology

We examined internal controls over competitive quotations for the period January 1, 2012, to March 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 are included in Appendix B of this report.

Comments of District Officials and Corrective Action

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

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 Secretary's office.

Competitive Quotations

General Municipal Law (GML) requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements.¹ These policies and procedures should indicate when District officials must obtain quotations or request proposals, outline the procedures for determining which method will be used, and provide for adequate documentation of the actions taken. The primary purpose for obtaining vendor quotes and proposals, or using State and County contracts when available, is to encourage competition in the procurement of supplies, equipment, and services that will be paid for with public funds. The use of competition provides District taxpayers with assurance that goods and services are procured in the most prudent and economical manner, goods and services of desired quality are being acquired at the lowest possible price, and procurement is not influenced by favoritism, extravagance, fraud, or corruption.

The District's procurement policy requires officials to solicit three written quotes for purchases of \$3,500 or more, or for public work contracts of \$5,000 or more. The policy further states that all quotations must be documented and the Board's approval of purchases must be reflected in the Board minutes. In addition, District employees must retain a copy of written quotes in the project file and attach the quotes to the claim voucher when paid. Any deviation from the policy, such as purchases made during emergencies² or procurements from sole sources,³ must be presented to the Board for approval. If quotes cannot be obtained or the lowest quote was not acceptable, the reasons for deviating from the policy should be explained in the Board minutes.

During our audit period, the District made purchases totaling \$305,896 from 25 vendors that fell below the competitive bidding threshold. We judgmentally selected purchases made from the 13 highest paid vendors, totaling \$164,294, to determine whether District officials obtained the required written quotes in accordance with their procurement policy. District officials did not obtain quotes for goods and services purchased from three of the 13 vendors, totaling

¹ GML requires bids when an item or commodity group exceeds established dollar limits. Current dollar thresholds require local governments to advertise for bids for purchase contracts in excess of \$20,000 and public works contracts in excess of \$35,000.

² The Board may declare an emergency when an event affects public property or the life, health, safety, or property of the inhabitants of the district, which allows them to waive the requirement for competitive bidding.

³ A vendor is determined to be the only source for required goods or services.

\$42,421. These three vendors were engaged to provide maintenance for the District's vehicles, upgrade the security system, and service the air-conditioning and heating system. The remaining 10 vendors in our sample included five purchases made under a State or County contract, and five purchases in which the District took adequate measures to solicit quotations.

While the District's policy requires that a copy of the written quotes be attached to a payment voucher or purchase order, no quotes were attached to payment vouchers or purchase orders in our sample. Further, when purchases were made from State or County contracts, they were not documented on the claims packages submitted for payment. We therefore question whether Board members are ensuring compliance with their own purchasing policy when approving the claims vouchers for payment.

Because District officials did not consistently adhere to established policies and procedures and ensure that goods and services were acquired through a competitive process, they do not have assurance that the District has received the best price for these goods and services.

Recommendations

1. District officials should adhere to the procurement policy's requirements when procuring goods and services to ensure that taxpayer dollars are expended in the most economical manner.
2. During its audit of claims, the Board should monitor compliance with its procurement policy and ensure that the required number of competitive quotations were obtained. Sufficient documentation to support purchasing decisions should be attached to each claim.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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September 17, 2013

Mr. Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
State of New York
Office of the State Comptroller
Hauppauge, New York

The Hicksville Water District thanks the New York State Officer of the Comptroller for their recently audit and for providing us with their recommendations to better enhance our financial operation.

The overall goal was to assess the adequacy of the internal controls put in place by the District to safeguard assets. Your initial assessment of our internal controls focused on areas that were most at risk. The assessment included evaluations of the; financial oversight, cash receipts and disbursements, purchasing, payroll and information technology. Additionally, the initial assessment tested transactions and a review of documents, such as District policies and procedures, Board minutes, financial records, and reports as well as the District's internal controls.

After your review it was determined that we had only one weakness relevant to our purchasing policy for obtaining quotes. That finding reflects the same outcome the District noted in December of 2012. The District, prior to the audit had already taken steps to self-audit our procurement policy (as indicated in the meeting minutes of January 22, 2013) and make necessary revisions. The findings and recommendations by the State Comptroller's Office mirror our findings found in 2012.

Prior to these findings the District has already implemented a policy to ensure that the District adheres to the procurement policy's requirements when procuring goods and services to ensure that dollars are expended in the most economical manner. The policy will include sufficient documentation to support purchasing decisions and attached to each claim.

Additionally, the Board of Water Commissioners will continue to maintain their monitoring and oversight of compliance with its procurement policy, as they have done throughout the audit period and ensure that the required number of competitive quotations are obtained.

Once again we thank the State Office of the Comptroller for their oversight and concurrence with what the District had already self-identified.

Thank you,

Nicholas J. Brigandi
Chairman

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 District 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 oversight, cash receipts and disbursements, purchasing, payroll, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions, and requested pertinent documents, such as District policies and procedures. We reviewed Board minutes, financial records, and reports. In addition, we reviewed the District's internal controls.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and decided on the reported objective and scope by selecting for audit those areas most at risk. We reviewed the District's adopted purchasing policy to determine whether District officials followed their Board-adopted procurement policy for obtaining quotes. The steps that we took to accomplish our audit objective included the following:

- We interviewed management and staff involved with the District's procurement operations to gain an understanding of operations and internal controls relating to procurement.
- We reviewed the procurement policy to determine if it adequately addressed the procurement of goods and services.
- We determined that the District purchased goods and services that fell below the competitive bidding threshold from 25 vendors. These 25 vendors were paid a total of \$305,896.
- We selected 13 of the 25 vendors with the highest total payment amounts for the audit period. We then selected the invoice with the highest amount for each of these 13 vendors to determine if the District solicited competitive quotations. If the vendor provided similar items or service, we then used the aggregate amount for the audit period.
- We also determined whether procurements for these 13 vendors were made in accordance with Board policy as it relates to the solicitation of competitive quotes.

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.

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