



Carle Place Water District Procurement

Report of Examination

Period Covered:

January 1, 2012 — October 31, 2013

2014M-18



Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
PROCUREMENT	4
Professional Service Providers	4
Competitive Quotations	5
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2014

Dear District 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 of Commissioners 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 Carle Place Water District, 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 Carle Place Water District (District) is located in the Town of North Hempstead in Nassau County. Founded in 1915, the District serves a population of 8,900 people within a 1.5 square mile area. The District is governed by an elected three-member Board of Commissioners (Board) which comprises a Chairman, a Secretary and a Treasurer. The Superintendent is responsible for the general management of the District's operations under the Board's direction. The District's total revenue for the 2012 fiscal year was over \$2.9 million, generated primarily from water usage charges and real property taxes. The District's 2012 expenditures totaled over \$ 2.2 million.

Objective

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

- Does the Board ensure that competition is sought when procuring goods and services not subject to bidding?

Scope and Methodology

We examined the District's procurement practices for the period January 1, 2012 through October 31, 2013. Our audit found areas in need of improvement concerning information technology controls. Because of the sensitivity of this information, certain vulnerabilities are not addressed in this report but have been communicated confidentially to District officials so they could take corrective action.

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 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 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 of Commissioners to make this plan available for public review in the Secretary's office.

Procurement

An effective procurement process can help the District obtain services, supplies and equipment of the right quality and quantity from the best qualified and lowest-priced source, and in compliance with Board policy and legal requirements. This process helps the District expend taxpayer dollars efficiently and guards against favoritism, extravagance and fraud. 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, such as professional services and items that fall under the bidding thresholds. These policies and procedures should indicate when District officials must obtain competition, outline procedures for determining the competitive method that will be used, and provide for adequate documentation of the actions taken.

The Board did not ensure that competition was sought when procuring goods and services not subject to bidding. Although District officials have adopted a procurement policy that addresses procurement below the bidding thresholds, the policy states that professional services do not lend themselves to competitive procurement procedures. Therefore, District officials did not solicit competition for eight of the nine professional service contracts we reviewed, which totaled \$288,276. Furthermore, District officials did not enforce the policy requirement that quotes be solicited for purchases below the competitive bidding thresholds. As a result, the best value for goods and services may not have been obtained, resulting in unnecessary costs to District taxpayers.

Professional Service Providers

GML does not require competitive bidding for the procurement of professional services that involve specialized skill, training and expertise, use of professional judgment or discretion, and/or a high degree of creativity. However, GML does require that local governments adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. In addition, prudent business practices provide that contracts for professional services be awarded after soliciting competition. One way to accomplish this is through the request for proposal (RFP) process, which is meant to ensure that the District receives the desired service on the most favorable terms or for the best value. While the District is not specifically required to issue RFPs for professional services, it is required by law to establish a process that ensures that the District obtains qualified and necessary professional services as economically as possible.

The District's procurement policy did not require the use of competition when seeking professional services; instead, it stated that professional services did not readily lend themselves to competitive procurement procedures. As a result, District officials did not solicit competition when obtaining professional services. District officials continued to use the same professionals year after year without seeking competition and may not have received these services at the most favorable terms or for the best value.

The District paid 14 professional service providers \$318,035 during the audit period. We reviewed contracts made to all nine professionals who were paid \$5,000 or more during our audit period, for a total of \$306,136. Eight of the nine contracts, totaling \$288,276, were awarded without the benefit of any competition. These professionals included an engineer paid \$130,625, two auditing firms paid \$46,325, two attorneys paid \$35,369 and one accounting firm paid \$11,800. Because the District did not use competition to secure any of the professional services, the services may not have been obtained for the best value, and there is no assurance that these purchases were the most prudent and economical use of public moneys.

Competitive Quotations

GML requires the Board to adopt a written policy to procure goods and services that are not subject to competitive bidding requirements. Such a policy must not be inconsistent with GML. The Board has adopted a procurement policy that requires three written quotations for all purchases that are above \$1,000 and below the bidding thresholds established by GML.¹

District officials did not always obtain the necessary quotations for purchases that were under the bidding thresholds. We reviewed payments totaling \$30,917 made to 14 vendors.² District officials did not obtain quotes for nine of the 14 payments totaling \$17,494; they explained eight³ of these payments as follows:

- Four payments totaling \$11,253 for servicing equipment and hydrants. District officials stated that these services could only be provided by the company that supplied the equipment and hydrants and, therefore, these purchases were exempt from the quotation requirement. District officials believe that these services were performed by a sole source vendor, although

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 We used a random number generator to select 14 vendors and reviewed the highest payment made to each.

³ The ninth payment totaled \$1,440 for a newsletter. District officials offered no explanation as to why they did not obtain the necessary three quotations.

sole source vendors are not addressed in the procurement policy. Upon reviewing the District's files, we found no evidence that these services were, in fact, performed by a sole source vendor.

- Two payments totaling \$1,704 for uniforms and safety shoes from two vendors. Because the District has used these vendors for several years, District officials did not feel it was necessary to obtain the required quotations.
- One payment totaling \$1,759 for automotive parts. District officials stated they did not obtain the required quotes because they were unsure of what the cost of the parts would be. However, they would have learned the cost by obtaining quotes. Also, by not obtaining multiple quotes, the District has no assurance that the price paid was reasonable.
- One payment of \$1,338 for an emergency door repair. Although the policy states that it is not in the best interest of the District to solicit quotations in emergency purchase situations, the policy does not preclude the solicitation of quotes if time allows. The policy also does not provide guidelines on what documentation is to be retained in the event of an emergency.

The failure of District officials to comply with the procurement policy increases the possibility that the District may pay more than necessary for goods and services, resulting in unnecessary costs to District taxpayers.

Recommendations

1. The Board should consider revising its procurement policy to require District officials to award professional service contracts only after soliciting competition.
2. The Board should revise its procurement policy to address the documentation to be retained for sole source vendors and emergency purchases.
3. District officials should monitor and enforce compliance with the District's procurement policy relating to written quotes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.



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March 26, 2014

Mr. Ira McCracken
Chief Examiner of Local Government
And School Accountability
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Carle Place Water District
Procurement
Report of Examination for the Period of January 1, 2012 – October 31, 2013
2014M-18

Dear Mr. McCracken:

The Board of Commissioners is in receipt of the draft Report of Examination entitled Procurement for the period of January 1, 2012 – October 31, 2013. We would like to thank the New York State Office of the Comptroller for the recent audit and for providing us with recommendations to improve the operations of The Carle Place Water District. We are requesting this response be considered as our Corrective Action Plan since we have developed a plan to address the recommendations in the audit report.

- 1) The Board should consider revising its procurement policy to require District officials to award professional service contracts only after soliciting competition.

The Board agrees with this recommendation and will revise its procurement policy to request proposals every five years for professional services. The policy will state that the individual or company must be chosen on accountability, skill, education and training, judgment, integrity, expertise and moral worth taking into account competitive pricing.

- 2) The Board should revise its procurement policy to address the documentation to be retained for sole source vendors and emergency purchases.

The Board agrees with this recommendation and will revise its policy to include that documentation be attached to the purchase order of an emergency purchase to provide confirmation that the purchase was in fact for an emergency. Written quotations will be required for sole source vendors subject to the District's procurement policy. If only one quote is received it will serve as documentation that additional vendors could not be procured for this particular type of purchase. This procurement must be documented by a separate file.

- 3) District Officials should monitor and enforce compliance with the District's procurement policy relating to written quotes.

The District agrees with this recommendation and will monitor and implement its enforcement to ensure that dollars are expended in the most economical manner. Documentation to support each purchasing decision will be attached to each claim. The attached purchasing form will be utilized in obtaining our verbal and written quotations and will be placed on file for supporting documentation as well as attached to the purchase orders.

We thank the State Office of the Comptroller for their recommendations to enhance the procedures of the Carle Place Water District's procurement policy. Our implementations of the revised policy will serve in the best interest of the District's taxpayers, for whom we have highest the regard.

Very truly yours,

Timothy E. Stellato
Chairman

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to evaluate the District's procurement practices for the period January 1, 2012 through October 31, 2013. To achieve the objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials, and reviewed financial records and reports, policies, and Board minutes.
- We tested contracts made to all nine professionals who were paid \$5,000 or more during our audit period to determine if competition was used to secure any of the professional services.
- We identified all 36 vendors who received payments of at least \$1,000, but not more than the bidding thresholds, during our audit period. We used a random number generator to select 14 vendors and reviewed the highest payment made to each regarding procurement policy requirements.

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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