



Town of Le Roy

Purchasing

Report of Examination

Period Covered:

January 1, 2013 — February 25, 2014

2014M-106



Thomas P. DiNapoli

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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 Le Roy, 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 Le Roy (Town) is located in Genesee County and includes the Village of Le Roy. The Town has a population of approximately 7,600. The Town provides various services to residents, including general governmental support, highway maintenance and improvements, snow removal, recreation, water and street lighting.

The Town is governed by an elected Town Board (Board), which is comprised of the Supervisor and four council members. The Town's budgeted appropriations for 2014 totaled \$3.1 million. The Town uses an outside bookkeeping firm (Firm) to maintain its financial records.

Purchases are initiated by a department head or by the Supervisor's secretary. The Board is responsible for auditing claims against the Town. After audit, invoices are sent to the Firm, where the transactions are entered in the accounting records and claims are returned along with checks for payment.

Objective

Our audit addressed the following related question:

- Did the Board ensure that claims were properly itemized and supported prior to payment and that those goods and services were procured in accordance with the adopted purchasing policy?

Scope and Methodology

We examined the records of the Town for the period January 1, 2013 through February 25, 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 Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and recommendations and indicated that they have taken or plan 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 Town Clerk's office.

Purchasing

The General Municipal Law (GML) requires local governments to adopt a purchasing policy governing procurements of goods and services not required by law to be competitively bid. The policy should indicate the dollar amounts at which written and verbal quotes are required and the needed documentation to show the actions taken by Town officials to comply with the policy.

The Board adopted a purchasing policy and revised it in November 2013. The policy requires Town officials to obtain three written proposals for purchases that are greater than \$3,000 but less than \$10,000 and public works contracts that are greater than \$5,000 but less than \$20,000. In addition, it states that Town officials are required to publicly solicit bids for purchases over \$10,000 and public works contracts over \$20,000.¹ In lieu of advertising for bids, local governments may use certain contracts awarded by the New York State Office of General Services (OGS), county contracts, and contracts awarded by the Federal government (or an agency thereof), or any other state (including any other political subdivision or district therein).

The audit and approval of claims is a critical element of the Town's internal control system. Town Law requires the Board to audit and approve claims against the Town prior to directing the Supervisor to pay them. The Board should ensure that claims are properly itemized, and contain sufficient documentation, such as an itemized original invoice, the signature of the Town official or employee who authorized the claim, and evidence that quotes or bids were obtained, to allow them to determine that the claim is an actual and necessary Town expense and it complies with the Town's purchasing policy.

While the Board reviewed and initialed each claim presented for audit and approval, as well as discussed individual purchases and asked clarifying questions, the Board did not ensure that claims included the necessary documentation. Paid claims lacked proper itemization and documentation to indicate they represented actual and necessary Town expenses, and lacked evidence that Town officials complied with the adopted purchasing policy. For example, original invoices were not attached to claims; invoices also included prior balances that were not supported by additional invoices or receipts; and credit card

¹ The Town's policy is more restrictive than General Municipal Law (GML), which requires that purchase and public work contracts in excess of \$20,000 and \$35,000, respectively, be publicly advertised for bids and awarded to the lowest responsible bidder.

claims only had the credit card statement attached and were missing the original vendor receipts.

We tested 106 paid claims,² totaling \$446,623, for appropriate itemization and documentation and found the following:

- 23 claims, totaling \$41,069, did not have an invoice or appropriate receipt attached. This includes 11 credit card claims totaling \$3,640, which were supported by receipts totaling only \$879. Other examples include a \$15,000 paid claim to an ambulance service only supported by a letter requesting the budgeted amount, a \$4,600 paid claim for stone with only a statement of account attached, and a \$7,500 payment to a bank with only a voucher attached stating “2013 Insurance Accounts – HSA Non-Union.”
- 11 claims from two vendors, totaling \$39,836 included payments of a past due balance totaling more than \$16,000 which was not supported by an additional invoice or receipt. As a result, the Town overpaid both vendors. One vendor credited back all of the overpayments, totaling \$1,269, on subsequent invoices. However, we were unable to obtain an account history from the other vendor to determine the extent of any overpayments and to ensure that all overpayments were returned. We estimate the Town made at least \$4,270 in overpayments to this vendor.
- 37 claims totaling \$209,604 required a packing slip, bill of lading, or other documentation of receipt for the goods or services, but this documentation was not attached to any of these claims.
- All of the claims that we reviewed were approved by a department head and the Board prior to payment.

We also reviewed 72 of these claims for compliance with the Town’s purchasing policy. These claims included 14 purchases,³ totaling \$364,247, which required the solicitation of competitive pricing. None of these claims included documentation to show that Town officials followed the terms of the purchasing policy before they made the purchases. We noted the following:

² Claims selection included a judgmental sample of claims over \$500, claims that required three written quotes and all credit card statements. Some claims included more than one exception.

³ Many included more than one claim

- The Town paid \$15,500 for “road shoulder restabilization” without soliciting three written quotes, as required. Town officials considered it to be a sole source⁴ purchase, because the vendor uses a unique process. However, a vendor can only be defined as a sole source if there is no possibility of competition. Town officials did not provide documentation to demonstrate that this vendor’s service was sole source. We found that this vendor was not the only vendor that could provide road shoulder restabilization. Therefore, quotes should have been obtained in accordance with the Town’s purchasing policy.
- The Town contracted road repairs for \$6,000. Town officials stated the vendor was County bid; however, the vendor used was not listed on the County bid. Due to the lack of detail on the invoice, we could not determine if County bid pricing was obtained.
- For a \$6,300 shoulder milling contract, only two quotes were obtained. Although the Town used the vendor that submitted the lower of the two quotes, Town officials did not obtain three quotes as required by the purchasing policy.
- The Town purchased chlorine costing \$5,500, without obtaining three quotes as required. Town officials stated that they purchased chlorine from this vendor because this vendor has always provided pool maintenance.

Without appropriate invoices and documentation of competitive pricing attached to the claim, the Board cannot ensure that purchases are appropriate, that a competitive price was received, and that duplicate payments are not made.

Recommendations

The Board should:

1. Adopt procedures to conduct a thorough audit of claims,
2. Ensure that all claims include the appropriate invoices and/or receipts prior to payment,
3. Ensure that all claims have documentation of competitive pricing and that the competitive price was received, and

⁴ The sole source exception is generally applicable in limited circumstances when a local government requires particular goods or services which uniquely serve the public interest, for which there is no substantial equivalent and which are, in fact, only available from one source.

4. Ensure that overpayments made to vendors were credited back to the Town.

Town officials should:

5. Ensure that they are following the Town's purchasing policy regarding obtaining quotes and bids.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

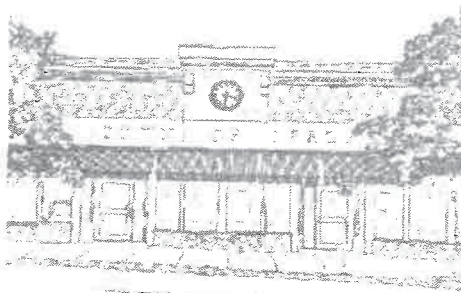
The local officials' response to this audit can be found on the following page.

Town of LeRoy

Stephen R. Barbeau
Supervisor

Patricia A. Canfield
Town Clerk/Tax Collector

John Armeth
Supt. of Highways



Tom Stella
Deputy Supervisor

Kelly Lathan
John Armitage
Christine M. Smith
Town Council

Kermit Arrington
Darryl Sehm
Town Justices

June 17, 2014

Office of State Comptroller
Buffalo Regional Office
295 Main Street – Suite 1032
Buffalo, NY 14203-2510

Attn: Mr. Jeffrey D. Mazula
Re: Town of LeRoy – Purchasing

Dear Mr. Mazula:

Please receive this letter as the Town of LeRoy's response and corrective action plan for the "Report of Examination" from your office reviewing purchasing from January 1, 2013 to February 25, 2014.

LeRoy Town Board is gratified OSC paid special note to the fact that all claims reviewed were approved by a department head and the Town Board prior to payment. This ensures proper accountability to taxpayers! However, the current board recognizes a new era of accountability, recognizes a necessary revision to its Procurement Policy, and embraces the suggestions made by OSC.

The LeRoy Town Board will begin its improvement process immediately, specifically:

- Revise its Procurement Policy to reflect new GML limits and strictly adhere to this policy when making affected purchases
- Where a sole source vendor is utilized and covered under the board's Procurement Policy, a board resolution shall be attached to the claim.
- Establish non-union employee HRA contribution amounts at the board's annual reorganization meeting
- Establish a contract with LeRoy Ambulance for any future budgetary contributions
- Require all department heads, verified by Town Bookkeeper, to attach invoices, receipts, and / or packing slips to claim forms prior to board auditing
- The board is confident noted overpayments were credited on future invoices – as nine of the eleven cited claims involved the same vendor, the Town will work to remediate that vendor's billing procedures – bills will be paid from invoices (not statements) to avoid the potential for overpayment
- Where purchases are made from State or County bid lists, a verified bid number shall be noted on the claim form and a copy of pricing sheet attached

The LeRoy Town Board takes its purchasing review responsibility very seriously. As noted, the board thoroughly reviews each and every claim. The recommendations by OSC will help improve its internal process for such review and ensure compliance with its own policies. The LeRoy Town Board thanks OSC for its comments to improve efficiency.

Sincerely,

Stephen R. Barbeau
Supervisor – Town of LeRoy

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We performed the following procedures to complete our audit objective:

- Reviewed the Town’s purchasing policy,
- Interviewed Town officials to determine the process for purchasing, including the documentation of competitive pricing and to determine if competitive pricing was obtained when it was not documented on the paid claim,
- Tested a sample of paid claims to ensure they had adequate itemization and documentation and, when applicable, competitive pricing was obtained and
- Reviewed a judgmental sample of paid claims, including claims over \$500, credit card statements, and claims that required competitive pricing per the Town’s purchasing policy (i.e., claims over \$3,000).

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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