



Village of Arcade Internal Controls Over Purchasing

Report of Examination

Period Covered:

June 1, 2010 — January 14, 2013

2013M-37



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2013

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 Arcade, entitled Internal Controls Over 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 Village of Arcade is located in Wyoming County and has a population of approximately 2,100 residents. The Village's 2012-13 budget totals \$3.2 million and includes appropriations for general administration, street maintenance, snowplowing, water and sewer services, justice court, police protection, fire protection, ambulance service, street lighting, sidewalks, garbage collection, and recreation. These services are funded primarily with real property taxes, user charges, and Federal and State aid. The Village also operates its own municipal electric utility.

The Village is governed by an elected five-member Board consisting of the Mayor and four Trustees. The Board provides guidance through the enactment of policies and procedures, adoption of the annual budget, and the approval of all contracts. The Mayor is the Village's chief executive officer and is responsible for the implementation of policies established by the Board. The Clerk-Treasurer is the Village's chief fiscal officer and is responsible for maintaining the Village's financial records. The Superintendent of the Department of Public Works (Superintendent) is responsible for implementing Board policy and overseeing the operations of the Department of Public Works in compliance with statutory requirements.

Objective

The objective of our audit was to evaluate the internal controls over purchasing and addressed the following related question:

- Is the Board verifying that the Village is purchasing vehicles and equipment on State contract at the proper price?

Scope and Methodology

We examined the Village's State contract purchasing for the period June 1, 2010, through January 14, 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 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 that they have initiated 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.

Purchasing

The Board is responsible for designing internal controls to safeguard Village assets and ensure that goods and services of the highest quality are obtained at the lowest possible price, in compliance with Village policies and legal requirements. This helps to ensure that taxpayer dollars are expended in the most efficient manner. Village officials also should ensure the prudent and economical use of the Village's money when procuring goods and services and should guard against favoritism, extravagance, fraud and corruption.

The Board did not establish procedures to ensure that the correct prices were obtained when purchasing goods through New York State Office of General Services (State) contracts. The Board did not verify that they received State contract pricing for nine purchases and overpaid approximately \$5,500 for four of these purchases. In addition, the Board did not ensure that Village officials followed the Village's procurement policy or statutory bidding requirements. Village officials purchased three loaders totaling \$271,491 without soliciting competitive bids.

State Contract Purchasing

Village officials are authorized to purchase directly through State or county contracts in lieu of seeking competitive bids. Village officials purchasing from a vendor who was awarded a State contract should be familiar with the terms and conditions governing the use of the contract and should hold the vendor accountable for charging the Village the correct price. Village officials should verify the price by comparing relevant list prices, reduced by contract discounts, with a detailed billing that should be provided by the vendor. This price verification should be attached to the vendor's claim and reviewed by the Board prior to approving it for payment.

During our audit period, the Village purchased a tractor, a backhoe, and seven vehicles totaling approximately \$266,000 using State contracts. Village officials did not verify that they received State contract pricing for these nine purchases. As a result, the Village overpaid approximately \$5,500 in total for four of these purchases.

Two of these four purchases were for police vehicles acquired in 2010 and 2012 from the same vendor. Invoices for both of these purchases were not sufficiently itemized. Specifically, the cost of several added options totaling \$10,420 were represented by a single line item on each invoice. The vendor provided us with pricing schedules which showed that these charges included a total of \$3,750 in installation costs. However, under the terms of the State contract, the vendor was

not allowed to charge the Village to install the optional equipment. We discussed the matter with Office of General Services (OGS) officials, who agreed with our assessment.

For the purchase of a tractor, the vendor overcharged the Village by nearly \$1,300 by applying the wrong discount rate to the list price of various options and charging the Village additional costs for delivery. We brought these issues to the attention of OGS officials and they agreed with our assessment. We discussed these overcharges with the vendor, and they issued a credit for \$1,089 to the Village. Finally, when we applied the State contract discount rate to the list price for various components of the backhoe, we noted that the vendor's billed cost for three options were greater than the State contract price, by a total of nearly \$500.

These overpayments occurred because Village officials did not verify that the amounts charged by the vendors were correct according to the terms of the applicable State contracts. If Village officials compared relevant list prices, reduced by State contract discounts, with a detailed breakdown of charges by the vendors, they would have noted that the vendors did not charge the Village the correct amounts.

Competitive Bidding

The Village's procurement policy and General Municipal Law generally require compliance with competitive bidding requirements when purchasing goods and commodities that exceed \$20,000 and public works contracts that exceed \$35,000, annually. Village officials need to identify the total cost of the purchase, before any trade-in and cash payments are considered, to determine whether competitive bidding is required.

In 2011 and 2012, the Village purchased three loaders totaling \$271,491¹ without soliciting competitive bids. The Village financed these purchases with \$20,250 in cash and a trade-in of Village-owned equipment. The Superintendent stated that he was not aware that the Village was required to solicit bids because the trade-in values reduced the overall cash cost to an amount under the bid limits. Furthermore, Village officials may have believed these purchases were made from State contract vendors because these loaders were listed as State contract purchases on the Village's equipment roster.

Advertising for bids encourages competition among vendors and provides taxpayers with reasonable assurance that goods and services are procured in a prudent and economical manner and helps to guard against favoritism, fraud, and corruption. By failing to purchase the three loaders through the competitive bidding process, there is no

¹ The three loaders cost \$72,491, \$95,000, and \$104,000, respectively.

assurance that the \$271,491 paid for the three loaders was the most prudent and economical use of taxpayer moneys.

Recommendations

1. The Board should establish procedures to ensure that Village officials verify that the price charged by a vendor awarded a State contract is correct by comparing relevant list prices, reduced by contract discounts, with a detailed breakdown of charges by the vendor. This comparison should be attached to the vendor's claim and reviewed by the Board prior to approving the claim for payment.
2. The Board should ensure that Village officials comply with the Village's procurement policy and General Municipal Law by requiring competitive bids when purchasing goods and commodities that exceed \$20,000 and public works contracts that exceed \$35,000 annually.
3. The Board should recover any overpayments the Village made to State contract vendors.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Trustees

Andrew Koerner
James McGarvey
Kenneth J. Rule
Donna J. Schiener

Clerk/Treasurer

Jennifer Kraft
Ext. 102

**Mayor**

Jay R. May
Ext. 119

Supt of Public Works

Larry A. Kilburn, PE
Ext. 113

Police Chief

Anthony Biscaro
Ext. 108

Fire Chief

Tom Beiersdorf

April 22, 2013

Office of the State Comptroller
Robert Meller, Chief Examiner
295 Main Street, Suite 1032
Buffalo NY 14203-2510

Re: The Village of Arcade Response to the Draft Internal Controls Over Purchasing

Dear Mr. Meller,

The following is the Village of Arcade's response to the draft issued regarding our internal controls over purchasing.

Purchasing

Recommendations:

1. While it is understood that the Village of Arcade is authorized to purchase directly through State or county contracts in lieu of seeking competitive bids, we were not aware of the verbiage in the State contracts that it was our responsibility to hold the vendor accountable for the correct price. We are not now sure what the actual responsibility of the New York State Office of General Services (State) contracts is. The Village of Arcade has a reasonably small office staff. We do not have someone who is solely responsible for gleaning through State Bid contracts to determine the legality of the terms and conditions governing the use of the contract. We have always thought that was the responsibility of OGS. We will no longer waste the Village of Arcade's time going through the State Bid process if the competitive bid process is equally as time consuming.

In the future, it will be the intent of the Village to put all purchases out for competitive bids using our own bid specification package. We will then be able to utilize this bid package to compare vendors' offerings.

2. The Board has issued a new Village procurement policy update that requires competitive bids when purchasing goods and commodities that exceed \$20,000 and public works contracts that exceed \$35,000 annually.
3. The Board agrees that it should recover any overpayments the Village made to State contract vendors. To date, the recovery is in the amount of \$1,089.

Sincerely,

Jay R. May
Mayor

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Village officials to safeguard Village 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 management, cash receipts and disbursements, purchasing, payroll and personal services, tax collection and information technology.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions, and reviewed pertinent documents, such as Board minutes and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected the purchase of vehicles and equipment on State contracts for further audit testing.

To accomplish our objective, we interviewed appropriate individuals regarding Village policies and procedures and reviewed pertinent documents for the period June 1, 2010, to January 14, 2013. The documents reviewed included quotes, vendor invoices, State contracts, and price lists for large equipment purchases. We reviewed claims for vehicles and equipment to determine if purchases exceeded bid limits. We compared per unit prices paid to State contract bid prices to determine if savings could have resulted. We also spoke with officials from the New York State Office of General Services who administer the State contract program.

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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