



# Village of Malverne Procurement

## Report of Examination

Period Covered:

June 1, 2015 – August 31, 2016

2017M-16



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

April 2017

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 Malverne, 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 Malverne (Village) is located in the Town of Hempstead in Nassau County. The Village has approximately 8,500 residents and is governed by an elected Board of Trustees (Board) composed of a Mayor and four Trustees. The Mayor is the Board's presiding officer and the Village's chief executive officer and budget officer. The Clerk-Treasurer is the Village's chief financial officer and is responsible for collecting, disbursing and investing Village funds and approving purchases.

The Village provides various services such as police and fire protection, a Building Department, a Department of Public Works and a Justice Court. These services are funded primarily through real property taxes, departmental income and State aid. The Village's general fund expenditures totaled \$14.7 million for the 2015-16 fiscal year. Budgeted appropriations were approximately \$16 million for the 2016-17 fiscal year.

## Objective

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

- Did the Board ensure that Village officials purchased goods and services in compliance with the Village's procurement policy?

## Scope and Methodology

We examined the Village's procurement process for the period June 1, 2015 through August 31, 2016.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

## 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 plan to take 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 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 Village Clerk's office.

# Procurement

An effective procurement process helps the Village obtain services, materials, supplies and equipment of the right quality and quantity, at the best price and in compliance with the Village's procurement policy and other applicable legal requirements. Effective controls generally include the use of a purchase order (PO) system, which can help control expenditures by confirming that there are sufficient funds to pay claims and that purchases are properly authorized. General Municipal Law (GML) requires local governments to adopt written policies and procedures for procuring goods and services that are not subject to statutory competitive bidding requirements. The primary purpose for obtaining quotes and proposals 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 the greatest assurance that goods and services are procured in the most prudent and economical manner, at the lowest possible price, and that procurement is not influenced by favoritism, extravagance, fraud or corruption.

We found that Village officials have not enforced compliance with the Village's procurement policy. Village officials allowed goods and services to be purchased before authorization from the Clerk-Treasurer, which resulted in "confirming" POs (prepared after a purchase had been made). Also, Village officials did not obtain sufficient quotes for purchases not subject to bidding requirements. As a result, the Board does not have adequate assurance that goods and services are purchased at the best price.

## Purchase Process

A properly functioning PO system ensures that purchases are properly authorized and preapproved and that adequate funds are available before a purchase is made. A signed and dated PO also documents an authorized placement of an order, a cross-reference to the vendor's invoice and the source document of Village claims (vendor bills) entered into the accounting system. A financial officer, such as a Board-appointed purchasing agent, should verify that funds are available for a purchase before a purchase is initiated with the vendor for goods or services. To receive a PO, the individual requesting a purchase submits a signed and dated purchase requisition to the individual responsible for purchase authorization and approval. The purchase requisition provides preapproval accountability and a level of assurance that the requested items are needed and have been approved.

A confirming purchase is one approved after goods or services have already been ordered or received from a vendor. Because confirming

purchases circumvent the review and approval process, their use should be strictly controlled and limited to exceptional situations. Confirming purchases should be marked as such and should include an explanation of the circumstances, such as a documented emergency.

The Village's procurement policy assigns the role of purchasing agent to the Clerk-Treasurer and requires a requisition for purchases exceeding \$1,000. Each requisition must be submitted to a designated Board member for initial approval. Upon approval, the requisition is forwarded to the Clerk-Treasurer, who reviews the purchase for availability of funds and assigns a PO. While purchases less than \$1,000 do not require the use of a requisition, the Clerk-Treasurer should still review purchases to ensure that budgeted appropriations are sufficient, prior to the purchases being made.

Village officials allowed department heads to make purchases for their respective departments, thereby acting as purchasing agents. As a result, purchases for less than \$1,000 are made prior to the Clerk-Treasurer's approval. Additionally, not all purchases made for more than \$1,000 are pre-approved by the designated Board member.

We reviewed 30 claims<sup>1</sup> totaling \$75,320 and found the following:

- Fifteen claims totaling \$50,366 were above \$1,000 and, per Village policy, required a requisition. Ten claims totaling \$36,296 were confirming purchases and were made prior to the Clerk-Treasurer's approval. For these ten purchases, the Clerk-Treasurer indicated approval directly on the vendors' invoices, after the purchases had been made. As a result, the Clerk-Treasurer could not verify the availability of funds prior to purchase or verify that the Village received the correct goods or services as ordered. For example, the Village paid \$3,802 for park benches and garbage receptacle liners for the Public Works department. However, the designated Board member did not pre-approve this purchase and a requisition was not completed. Village officials told us they have allowed the Public Works department head to make purchases above the \$1,000 limit without the designated Board member's pre-approval in the instances where items need to be purchased faster than the requisition process would allow. However, the purchase of a park bench and garbage liners do not seem to fall into this category and should have been purchased with appropriate approvals and documentation.

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<sup>1</sup> See Appendix B for sample methodology.

- Village officials could not determine whether two of the 15 claims totaling \$6,332 were confirming purchases because the Clerk-Treasurer's approval was not documented on the claims.
- Five of the 30 claims totaling \$17,575 were adequately documented, as requisitions were included with the purchasing documentation; however, one of these claims totaling \$2,425 to repair a siren was approved after the service was complete.
- The remaining 10 claims totaling \$7,379 were below \$1,000 and did not need a requisition based on the Board-adopted policy. However eight claims, totaling \$5,888, were confirming purchases and were made prior to the Clerk-Treasurer's approval. Additionally, Village officials could not determine whether one purchase for \$816 was a confirming purchase because the Clerk-Treasurer's approval was not documented.

The lack of prior approval and allowing certain departments to disregard a Board-adopted policy reduces the assurance that Village purchases are appropriate and necessary and that there is adequate money appropriated and available to pay for these purchases.

## Quotes

GML requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to statutory competitive bidding requirements. The Board adopted a procurement policy that outlines dollar thresholds<sup>2</sup> for purchases requiring either verbal or written quotes to be obtained and documented as well as circumstances in which alternative proposals or quotes are not required, such as a documented emergency situation or documented purchases under a State or county contract. The policy also states that when Village officials are unable to solicit quotes, the originator is required to document attempts to obtain additional proposals or quotes.

Village officials did not enforce the procurement policy requirement for documented verbal or written quotes before purchasing goods or services. Purchases were approved even though Village personnel did not obtain or provide documentation of quotes or the rationale for not obtaining quotes, as stated in the adopted policy.

<sup>2</sup> The Village's procurement policy requires the originator to obtain verbal quotes from at least two vendors for purchases of goods or public works from \$500 to \$1,999, written quotes from at least two vendors for purchases of public works from \$2,000 to \$9,999, and written quotes for purchases of goods from \$2,000 to \$19,999 or for public works from \$10,000 to \$34,999 from at least three vendors.

We reviewed 29 claims totaling \$71,320 and found that Village officials did not seek sufficient competition for 18 of these purchases<sup>3</sup> totaling \$61,823. Village officials did solicit some quotes for five claims totaling \$13,415. However, the number of quotes solicited for these purchases was insufficient and was not in accordance with the Village's procurement policy. For example, the Village paid \$2,425 for the repair of a municipal fire siren. Prior to the purchase, Village officials solicited a single quote from a repair vendor, instead of at least two written quotes as required. In addition, attempts to solicit other quotes were not documented in the purchase documentation.

The Village's procurement policy is not clear on the solicitation of quotes for purchases below \$1,000. It specifies in one section that purchases below \$1,000 require documented verbal quotes, and in a separate section it specifies that quotes are not necessary. During our review, we also identified 10 of the remaining 11 claims totaling \$7,380 for purchases less than \$1,000 that did not have quotes documented with the purchases. Without the appropriate and prescribed use of competition, Village officials and the Board cannot be assured that they are obtaining the best quality of goods and services at the most reasonable cost.

## Recommendations

The Board should:

1. Ensure that all Village employees comply with the Village's procurement policy requiring the use of requisitions/POs prior to ordering goods and services.
2. Restrict the use of confirming POs to exceptional situations, such as a documented emergency situation.
3. Ensure that all Village employees who are involved in the procurement process comply with the Village's procurement policy requiring the use of verbal and written quotes.
4. Consider revising the procurement policy to clarify whether purchases below \$1,000 require the solicitation of quotes.

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<sup>3</sup> One of the 29 claims totaling \$2,118 was for the sole-source repair of a specialty vehicle and, therefore, did not require the use of competitive quotes when soliciting the repair.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



## Incorporated Village of Malverne

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Teresa Emmel, *Clerk-Treasurer*

Joseph Gentile, *Village Attorney*

March 22, 2017

Mr. Ira McCracken, Chief Examiner  
Division of Local Government and School Accountability  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, NY 11788-5533

Dear Mr. McCracken:

The Village of Malverne has received and reviewed the audit report entitled Procurement, Report of Examination 2017M-16 covering the period June 1, 2015 – August 31, 2016.

As a result of the audit process leading to this report, the Village is now reviewing its current procurement policy so that it properly addresses the purchasing needs of the Village. The approval process outlined in our policy cannot afford total compliance, and although departments were obtaining the required verbal quotes, it was noted that there was a lack of documentation with certain purchases to support this process.

The findings of this report are viewed as a valuable tool and will be used to ensure an improved procurement policy that will be followed by all departments.

I would like to thank the auditors from the Office of the State Comptroller for their courteous and professional manner and for their guidance during the review process. It has always been our goal to be fiscally responsible while obtaining appropriate goods and services necessary for the operation of the Village.

Yours truly,

Patricia McDonald

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We reviewed policies and procedures over procurement of goods and services.
- We interviewed Village officials and key personnel to determine the procedures in place with the purchasing of goods and services, particularly regarding the use of requisitions, POs and verbal and written quotes.
- We judgmentally selected 30 claims from a population ranging from \$500-\$20,000 for purchase contracts and from \$500-\$35,000 for public work contracts, exclusive of utilities, reimbursements and service payments, to determine if Village officials adhere to the Village's policy when procuring goods and services not required by GML to be publicly bid. Based on risks identified during our risk assessment, we judgmentally selected 15 departmental purchases and 15 central office purchases. In order to avoid multiple payments to the same vendor, purchases made during the audit period were sorted by vendor name and we selected the last listed purchase for each vendor chosen.
- We reviewed claims in order to determine whether the purchases were approved by the purchasing agent prior to the purchases being made; whether purchases were clearly itemized, for valid Village use and were delivered to an appropriate Village address; and whether receipt of goods was acknowledged by Village personnel.
- We reviewed purchase dollar amounts in order to identify the number of quotes required and whether the quotes were required to be written or verbal. We reviewed related claims to identify the number of quotes provided with the purchase documentation, the type of quotes provided and whether quotes were solicited in advance of the invoice or purchase date.

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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