

Village of Red Hook

Procurement and Claims Auditing

OCTOBER 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Procurement 2**
 - How Should a Village Procure Goods and Services? 2
 - Officials Did Not Always Procure Goods and Services in Accordance With the Policy 2
 - Officials Did Not Seek Competition for Professional Services 3
 - Officials Did Not Annually Review the Procurement Policy 4
 - What Do We Recommend? 4

- Claims Audit Process 5**
 - What Is an Effective Claims Audit Process? 5
 - The Board Did Not Properly Audit Claims 5
 - What Do We Recommend? 6

- Appendix A – Response From Village Officials 7**

- Appendix B – OSC Comment on the Village’s Response 11**

- Appendix C – Audit Methodology and Standards 12**

- Appendix D – Resources and Services 14**

Report Highlights

Village of Red Hook

Audit Objectives

Determine whether Village officials procured goods and services in compliance with the procurement policy.

Determine whether claims were adequately supported and properly audited before payment.

Key Findings

Village officials did not:

- Follow the adopted procurement policy when acquiring goods.
- Issue request for proposals for professional service providers who were paid \$191,575 for the audit period.
- The Board did not properly audit claims.

Key Recommendations

- Adhere to the procurement policy.
- Revise the procurement policy to include a competitive process for obtaining professional services.
- Ensure all claims are adequately supported as required by the procurement policy.

Village officials disagreed with certain aspects of our findings and recommendations, but indicated they planned to implement some of our recommendations. Appendix B includes our comments on issues raised in the Village's response letter.

Background

The Village of Red Hook (Village) is located in the Town of Red Hook in Dutchess County. The Village is governed by an elected Board of Trustees (Board) composed of four trustees and the mayor. The Board is responsible for the general management and oversight of financial operations.

Department heads are responsible for making purchases for their departments and obtaining any necessary quotes. The Board performs the claims auditing function.

Quick Facts

2017-18 Budget	\$1.9 million
2018-19 Budget	\$2 million
Employees	25
Claims Paid During the Audit Period	\$3.3 million

Audit Period

June 1, 2017 – August 9, 2018

Procurement

How Should a Village Procure Goods and Services?

New York State General Municipal Law (GML)¹ generally requires villages to solicit competitive bids for purchase contracts exceeding \$20,000 and public works contracts exceeding \$35,000. In addition, GML² requires that the governing board adopt written procurement policies and procedures for procuring goods and services not required by law to be competitively bid, such as professional services and that this policy be reviewed and updated annually.

GML requires that goods and services must be procured in a manner that ensures the prudent and economical use of public funds, in the best interest of taxpayers, and is not influenced by favoritism, extravagance, fraud or corruption.³ A procurement policy should require that officials maintain adequate documentation to support and verify the actions taken and must be reviewed annually by the governing board.⁴

Seeking competition for professional services helps ensure the prudent use of taxpayer money. One way to promote competition in professional services is to use a request for proposal process because it helps ensure that the village obtains needed services under the most advantageous terms and conditions and helps to avoid any potential appearance of partiality when awarding such contracts.⁵

The Village procurement policy requires competitive bidding for purchases of at least \$10,000 and public works of at least \$20,000. The policy also requires Village officials to seek competition for purchases of \$250 or more that do not meet the bidding thresholds. In addition, the policy requires officials to make a good faith effort to obtain a minimum of three proposals or quotes. If the purchaser is unable to obtain the required number of proposals or quotes, the purchaser must document the attempts made.

Officials Did Not Always Procure Goods and Services in Accordance With the Policy

We tested both purchases totaling \$183,823 made during the audit period that exceeded the \$10,000 bidding threshold as required by the procurement policy to determine whether Village officials complied with the policy. We found that Village officials appropriately sought competition for both purchases.

1 New York State General Municipal Law, Section 103

2 New York State General Municipal Law, Section 104-b

3 Ibid.

4 Ibid.

5 Refer to our publication *Seeking Competition in Procurement* available on our website at www.osc.state.ny.us/localgov/pubs/lmgmg/seekingcompetition.pdf

In addition, we tested 19 purchases totaling \$30,870 that required quotes to determine whether officials complied with the policy.⁶ These purchases included such items as tree removal and trimming services totaling \$16,850, carpeting totaling \$4,450, lumber totaling \$1,092 and auto parts totaling \$989. Officials were unable to provide documentation showing that they sought competition for any of these purchases and told us that they were unaware of the policy requirement that documentation of quotes was required for purchases of \$250 or more.

Although all the reviewed purchases were for appropriate purposes, without a competitive process, officials and the Board cannot be sure that goods and services are procured in the most economical way and in the best interests of taxpayers. In addition, by not obtaining the required quotes or documenting the attempts made, officials are in violation of the Board-approved procurement policy.

Officials Did Not Seek Competition for Professional Services

We identified 17 professional service providers who Village officials paid a total of \$191,575 during our audit period. We reviewed the payments to all these providers and found that officials did not seek competition when selecting any of them.

Figure 1: Professional Services Procured During the Audit Period

Service Type	Number of Vendors	Total Paid
Insurance – Net^a	2	\$82,256
Legal	6	\$33,611
Consulting	3	\$33,344
Financial	1	\$16,456
Information Technology	3	\$15,258
Engineering	1	\$7,650
External Auditors	1	\$3,000
Total	17	\$191,575

^a The Village paid \$135,684 in insurance payments during the audit period. However, \$71,237 of that amount was for workers' compensation Insurance for the Red Hook Fire Department. The Town reimbursed the Village \$53,428 for the Town's portion of this cost.

⁶ Refer to Appendix C for information on our sampling methodology.

Officials told us that they did not seek competition when selecting these professional service providers because the procurement policy specifically excludes professional services from being obtained by solicitation of alternative proposals or quotes.

However, by not using a competitive process to procure these services, officials cannot be sure they are obtaining professional services in the most economical way, in the best interest of taxpayers and without favoritism.

Officials Did Not Annually Review the Procurement Policy

The Board did not review the procurement policy annually as legally required. Our review of the procurement policy showed that it was not up-to-date because the adopted policy thresholds for competitive bidding did not conform to the current higher GML bidding thresholds.⁷ While it is acceptable to have bidding thresholds lower than those required by GML, the Village may have incurred higher bid processing costs than necessary as a result. Also if the policy had been reviewed and updated as required it is likely that officials would have been aware of the requirements for bidding and obtaining quotes.

The Board was unaware that it was required to annually review the policy and update it as appropriate. By not reviewing the procurement policy annually as required, and adjusting the requirements accordingly, Village officials were not familiar with the requirements included in the policy.

What Do We Recommend?

The Board should:

1. Review and update the procurement policy to establish procedures for procurements not required to be bid and then review and update the policy on an annual basis as required.
2. Include competitive procedures to be followed for procurement of professional services in the policy.
3. Take steps to make sure employees are aware of and adhere to the requirements of the procurement policy and maintain supporting documentation of quotes.

⁷ New York State General Municipal Law, Section 103

Claims Audit Process

What Is an Effective Claims Audit Process?

New York State Village Law⁸ requires the board to audit all claims⁹ against the village before authorizing the treasurer to make payment. Every claim against a village should be subject to an independent, thorough and deliberate review to determine whether proposed payments are proper and valid charges.

It is important for the board to determine whether the claims represent actual and necessary village expenditures, are supported by itemized invoices or receipts, comply with board-adopted policies, contain evidence of receipt of goods or services, required signatures and quotes.

The Board Did Not Properly Audit Claims

We examined 100 claims totaling \$323,778 (10 percent) audited by the Board during the audit period. While we found evidence that the Board reviewed all these claims, it did not perform an adequate claims audit. Our review disclosed the following:

- 76 claims totaling \$114,869 contained only itemized invoices and did not contain documentation of quotes or an explanation as to why quotes were not obtained as required by the procurement policy.
- Eight claims for fuel and fuel oil totaling \$12,046 did not include evidence of contract numbers or that the Board verified the contract prices for purchases that officials asserted were obtained from State or other municipal contracts.
- Four claims totaling \$4,425 for telecommunication and process compliance services did not contain sufficient documentation to explain the level and amount of services provided.

The Board approved these claims based on its knowledge of vendors, goods and services purchased and whether the amounts seemed reasonable. However, because some Board members were unaware of policy requirements, they were unable to verify whether these claims were paid in accordance with the procurement policy.

Although all the claims reviewed appeared to be for proper and necessary purposes, the lack of required quotes and detailed supporting documentation prevented the audit of claims from being efficient to ensure the best use of taxpayer funds.

8 New York State Village Law, Section 5-524

9 Claims are bills or invoices submitted by vendors requesting payment for goods and services.

What Do We Recommend?

4. The Board should perform a deliberate and thorough audit of all claims, and ensure that each claim contains sufficient supporting documentation to comply with the procurement policy and show items purchased were for appropriate purposes and that goods and services were received before approving them for payment.

Appendix A: Response From Village Officials

VILLAGE OF RED HOOK

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August 13, 2019

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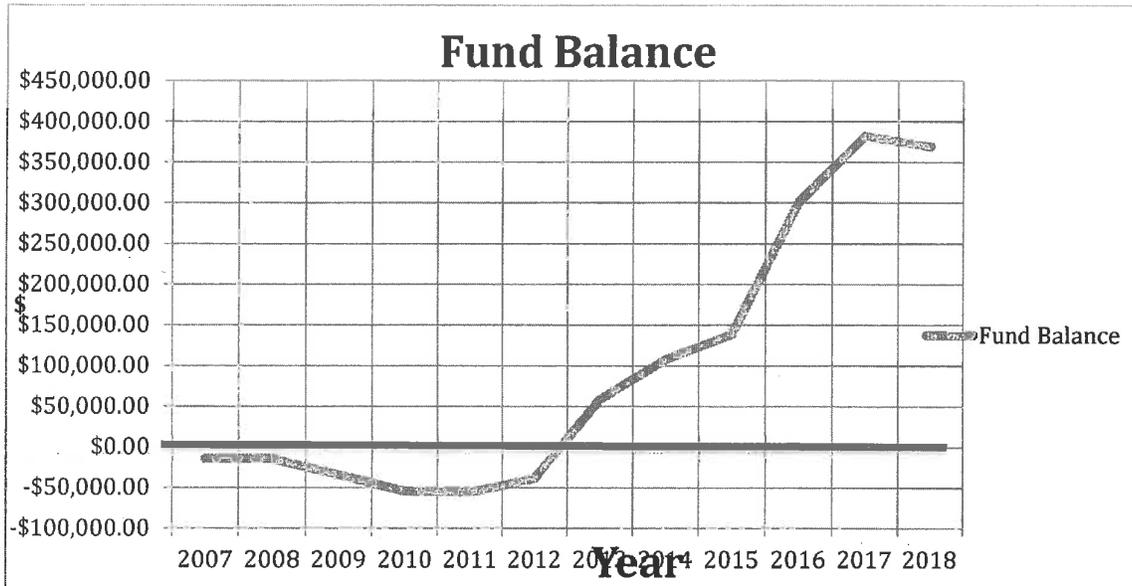
Att: [REDACTED]

VILLAGE OF RED HOOK
AUDIT RESPONSE
PROCUREMENT & CLAIMS AUDITING

Dear Mr. [REDACTED]

In our case, this administration has a proven track record of reversing a financially stressed government while maintaining services, improving infrastructure and attracting new growth to the Village of Red Hook. In 2011 there was negative cash flow and known negative fund balances that, upon taking office, we set our plans to correct. Charts and figures shown to the NYS Comptroller's auditor show this improvement and our daily operations reflect the improvement. We climbed out of the financial troubles by taking very detailed steps to monitor and control expenses, yet staying within tax caps. One of our steps included creating far more budget sub-categories so we can manage and detect variations as they are happening.

The Village of Red Hook is an equal opportunity provider and employer.



At the time of the audit, we were utilizing the existing village procurement policy that mirrored older state limits in NYS GML 104-b. In March 2019 we updated our procurement policy in response to preliminary audit findings and recognition that it needed modernization.. Our prior policy was dated, and low so that the audit found low level(\$250 to \$2,999), routine transactions as problematic. Inadvertently, these transactions were documented with bills(quotes) but did not contain three written quotes, which was worded deeper into the old code. In March 2019 the Village Board approved a more modern code. Our new policy is adopted and in force. The Board is aware and reminded of the new Procurement Policy.

On the topic of Professional Services, we disagree on critiques in the draft audit; in particular, our interpretation of procurement exceptions for Professional Services. Our prior code and our current code both reflect wording in GML 104-b. Our code enables the Board to determine whether or not to solicit quotes for professional services, with a list of qualifying sub-categories.

See
Note 1
Page 11

The audit introduces the finding at the onset in this section by “identifying” \$191,576 in professional services spending over 14 months in 2017-2018. Much of this amount is \$82,257 in insurance expenses. We use NYMIR to insure the village, as do 900 other NYS municipalities. NYMIR is a not-for-profit entity and is a reciprocal. Our agent shops the package policy every three years. Our reading of our code, and GML 104-b enables insurance procurement the way we do it. Our package is extremely complex, well-designed and not something that is available out there on the regular market. This annual premium is about \$62,000. Secondly, rates have been pretty much flat over the years; unlike health insurance. Our insurance policy is over 200 pages in length and provides millions of dollars in coverage products. Properly insuring all of the risks of a municipality is a detailed task that requires professional attention.

The other part of our insurance critique involves our purchase of Volunteer Firefighter Benefit Law Coverage. (VFBL). The cost is in the \$70,000 per year range. We contract for fire protection with the Red Hook Fire Company and a provision is that we purchase the VFBL coverage (and now including the new Cancer Law Coverage). There is a very limited market for VFBL and we use a Safety Group that places us in the NY State Insurance Fund. A related contract has the Town of Red Hook reimburse us 75% of the VFBL premium and we later share back the premium dividend we get from the safety group. It is a well-designed method to handle a very hard risk to insure. Our net cost is about \$15,000 based on this shared services inter-action with the Town.

Our own employees have worker's compensation coverage too, but purchased in a shared services project we joined a few years ago with Dutchess County. We test it each and it still out-performs the private market and is in line with the trend for shared services. At onset, our conversion to the County shared services saved us over \$10,000 in the first year and since then premium increases are contained and still save us money.

Each of our insurance packages provides value added services, as does our agent, to include free workplace safety training, work place inspections and seminar updates on items like HR issues. Plus, they pay or properly resist claims when filed.

The rest of the expenses being criticized are for professional services (lawyers, engineers and professional consultants); all of which are exceptions within GML and our code; and the amounts are minimal. The main law firm is on an \$18,000 per year retainer. This amount had not gone up in 8 years. Some of the other legal costs are paid by us but reimbursed via escrow accounts. In cases of union/personnel relations we use a specialty firm, as we do for land use issues.

See Note 1 Page 11

The Board's goal is always to best protect tax-payer money, provide the best coverage and services from professionals and is an exception to competitive bidding.

We still do not understand the auditor's position on NY State Contract purchases. We buy heating oil via state contract; we buy highway truck and equipment fuel via a shared service agreement with the Town of Red Hook- the town owns and maintains an approved fuel depot and buys the fuel at state contract pricing. In this manner, we avoid construction and maintenance costs of a fuel farm and get the contract pricing, with a 3% add-on for administrative costs. We buy salt/sand in a similar manner from the Town. They own the proper, expensive storage facility, load our trucks with their equipment and buy the products at state contract. Our police vehicles purchase fuel via a state contract [REDACTED] that provides safe fueling and very detailed tracking and management tools, at a discount.

The auditor does state that our major purchases all complied with procurement policies.

As indicated above, the Board adopted a new procurement policy in March 2019 to include revisions in the process and the continued goals of budgetary control, effectiveness and efficiency. . It also re-stated the ability to utilize best value and piggy backing concepts, which help us work with multiple shared services projects. We will certainly follow the new process and the Board is reminded of the policy at each re-organizational meeting. We have always made every decision and step with cost control in mind since we are all taxpayers.

Very truly yours,

Ed Blundell – Mayor
for the Board of Trustees – Village of Red Hook

Appendix B: OSC Comment on the Village's Response

Note 1

General Municipal Law requires that goods and services that are not required to be bid, such as professional services, must be procured in a prudent and economical manner. Although the statute allows the Village to provide for exceptions in its procurement policy, and the Village is not legally required to issue requests for proposals when soliciting professional services, doing so would help ensure that the Village obtains needed services at a reasonable price from qualified professionals, in the taxpayers' best interests, without partiality.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objectives¹⁰ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and professional service providers and reviewed the procurement policy to obtain an understanding of the procurement and claims audit processes.
- We reviewed all payments exceeding \$10,000 from total disbursements for the audit period. We reviewed supporting documentation to determine whether a competitive bidding process was used as required by the procurement policy.
- We reviewed a sample of 19 purchases totaling \$30,870 from the 181 purchases totaling \$202,906 made during the audit period that required quotes in accordance with the policy. Our sample was selected based on our professional judgement to obtain a variety of goods purchased. We reviewed the vouchers and obtained the payment files for the purchases to determine whether quotes were obtained in accordance with the procurement policy.
- We identified 17 professional service providers who received \$191,575 during the audit period. We reviewed purchases from all 17 providers, interviewed officials and reviewed supporting documentation to determine whether competition was sought before obtaining the services.
- From the 1,370 cash disbursements totaling \$3.3 million for the audit period, we used our professional judgment to select 100 disbursements totaling \$323,778 for purchases that exceeded the policy's quote threshold. For our sample, we reviewed claim vouchers, vendor invoices and other supporting documentation to determine whether the payments were properly approved, for a valid purpose, properly itemized and contained evidence the procurement policy requirements were met.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 relevant population size and the sample selected for examination.

¹⁰ We also issued a separate audit report, *Town of Red Hook – Clerk-Treasurer's Duties* (2019M-101).

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 provided 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 the CAP available for public review in the Clerk-Treasurer's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

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