



Village of North Syracuse

Claims Audit

Report of Examination

Period Covered:

June 1, 2012 — November 30, 2013

2014M-131



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2014

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 North Syracuse, entitled Claims Audit. 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 North Syracuse (Village) is located in Onondaga County and has a population of approximately 6,800 residents. The Village provides various services to its residents including police protection, street maintenance, snow removal, garbage pick-up, fire protection, recreation, sewer service and street lighting. These services are funded primarily by real property taxes, fire protection contracts, State aid and user charges.

The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor and four Trustees. The Mayor serves as the chief executive officer. An appointed Clerk-Treasurer maintains the Village's accounting records, prepares financial reports and signs Village checks.

The Village budget for the 2013-14 fiscal year was approximately \$4.8 million for the general and sewer funds combined. In fiscal year 2012-13, the total non-payroll disbursements were approximately \$2.9 million. The Village processed over 2,000 non-payroll claims during our audit period, totaling approximately \$4.6 million.

Objective

The objective of our audit was to examine the claims audit process. Our audit addressed the following related question:

- Did the Board fulfill its oversight responsibilities by conducting an effective audit of claims to ensure that all non-payroll disbursements were proper?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by 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 oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in claims auditing and, therefore, we examined the Board's oversight of the audit of the non-payroll claims for the period June 1, 2012 through November 30, 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 is included in Appendix C of this report.

**Comments of
Village Officials and
Corrective Action**

The results of our audit and recommendation 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 recommendation and indicated they planned to initiate correction action. Appendix B includes our comment on an issue raised in the Village’s response letter.

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.

Claims Audit

One of the Board's most significant oversight responsibilities is the requirement to audit claims. The Board needs to conduct a deliberate and thorough audit of claims before it disburses Village funds. An adequate claims audit can help ensure that public moneys are being spent and handled properly, identify conditions in need of improvement and provide oversight and review of the Village's disbursement process. To properly approve claims for payment, the Board must ensure that all claims contain sufficient documentation to determine the nature of the purchases and that the amounts represent actual and necessary Village expenditures.

The Board needs to improve internal controls over the claims audit process. The Deputy Clerk-Treasurer assembles the claim packets¹ and prepares the abstracts.² Although the Clerk-Treasurer reviews each individual claim on the abstracts,³ the Board reviews and approves the abstracts without reviewing the actual claims. Without a thorough and deliberate examination of the individual claims and the supporting documentation, the Board does not have enough information to determine whether or not the claims it approves are appropriate and legitimate and there is an increased risk that improper claims could be paid.

Due to the lack of a proper audit, we reviewed 75 payments totaling \$107,015⁴ to determine whether the related claims contained sufficient documentation, appeared to be legitimate and complied with statutory requirements and the Village's procurement policy. We did not find any improper payments during our examination of these claims. However, the Village paid two claims for lodging totaling \$1,337 without receipts. Without receipts, the Board would not be able to determine the nature and actual amount incurred for the lodging expense.

Because the Board does not audit claims, it does not have adequate assurance that the disbursements it is approving are for proper Village

¹ Claim packets usually contain a requisition form, purchase order, invoice, confirmation of receipt of products and other documentation as necessary.

² An abstract is a list of claims audited and approved for payment. The abstract contains information such as voucher numbers, vendor names and claim amounts.

³ The Board may establish the office of auditor to audit all claims against the Village. If it elects to do so, to maintain the proper segregation of duties, the claims auditor should be someone who is independent of both the purchasing and treasury (check signing) functions.

⁴ See Appendix C for information about our sample selection.

expenses. In addition, when claims are routinely paid without audit, there is an increased risk of misuse or diversion of Village funds.

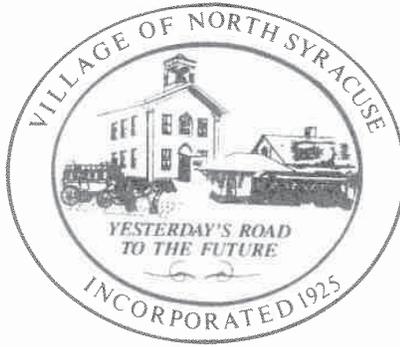
Recommendation

1. The Board should conduct a thorough and deliberate audit of claims before authorizing payment to ensure that they are accurate, properly supported, for valid Village expenses and in compliance with required statutes and policies.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

The Village officials' response to this audit can be found on the following pages. The Village's response letter refers to attachments that support the response letter. Because the response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.



June 27, 2014

Office of the State Comptroller
Division of Local Government & School Accountability
State Office Building, Room 409

██████████
333 E. Washington Street
Syracuse, NY 13202-1428

Unit Name: Village of North Syracuse
Audit Report Title: Claims Audit – Report of Examination
Audit Report Number: 2014-131

Dear ██████████

We thank you for the time you and your staff spent reviewing our processes and procedures; as we strive to maintain the necessary measures to secure that these are adhered to. We welcome your suggestions to further tighten the existing controls that we have in place. Please accept this letter as a combined Audit Response Letter and Corrective Action Plan.

Audit Recommendation: The Board should conduct a thorough and deliberate audit of claims before authorizing payment to ensure they are accurate, properly supported, for valid Village expenses and in compliance with the required statutes and policies.

Implementation Plan of Action: The Board discussed the audit results during Board Meeting on June 12, 2014. On June 26th a resolution was unanimously passed to implement a plan of action to ensure that our claims audit process has sufficient checks and balances. We resolved to create an Audit Committee consisting of one Board member and our Clerk Treasurer. This process (delegates) will be reviewed each and every year at the Village's Annual Meeting that takes place the 1st Monday in July. The designated Audit Committee will review each claim in full. To properly approve claims for payment, the Audit Committee must ensure that all claims contain sufficient documentation to determine the nature of the purchases and the amount represent actual and necessary Village expenditures. In addition, the Audit Committee will ensure the following: sales taxes are not paid on invoices; there are proper numbers of Mayor or Trustees signatures to authorize purchase; and quotes collected when applicable. Upon meeting all the requirements, the Requisition Forms will be initialed to designate authorization of payment.

See
Note 1
Page 10

600 South Bay Road North Syracuse New York 13212 (315) 458-0900 Fax (315) 458-5079

June 27, 2014
Page 2

Implementation Date: July 10, 2014

Person Responsible for Implementation: Mayor Mark Atkinson

Best regards,

Mark S. Atkinson
Mayor, Village of North Syracuse

CC: Office of the State Comptroller, Albany, NY

Enclosures: Board Meeting Minutes June 12, 2014
Board Meeting Minutes June 26, 2014

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

An audit committee can pre-audit claims, but has no authorization to actually audit and approve the payment of claims. The actual audit and approval or disapproval of claims for payment must be performed by the Board as a whole, by majority vote.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by 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 oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During our initial assessment, we interviewed appropriate Village officials and employees, performed limited tests of transactions and reviewed pertinent documents, such as adopted policies and procedures, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Village's financial transactions as recorded in its databases. Further, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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 professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected the Board's claims audit process for further audit testing. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed Board minutes and pertinent documentation and interviewed the Village Clerk-Treasurer, Deputy Clerk-Treasurer, Mayor and Trustees to gain an understanding of the internal controls surrounding claims processing.
- We analyzed the Village's computer-processed disbursement data for our audit period to verify completeness, consistency and reliability of the data.
- We used a random number generator to select a sample of 50 claims totaling \$52,559. We selected an additional 25 claims based on high risk factors including payments to vendors which were susceptible to purchases for personal use, payments to Village employees who were involved in disbursement processing, payments made on dates outside normal check runs, petty cash payments, payments to individuals and payments to credit card vendors.
- We tested the selected claims to determine whether they contained appropriate approvals, sufficient documentation such as itemized invoices, and evidence that goods or services were actually received, and whether they appeared to be legitimate and necessary and in compliance with policies and statutory requirements.

- We reviewed bank statements of all bank accounts for our audit period and examined online banking transfers and payments for suspicious transactions.

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 D

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