

# Village of Clayton

## Claims Auditing

SEPTEMBER 2021



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

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# Report Highlights

## Village of Clayton

### Audit Objective

Determine whether the Village of Clayton (Village) Board of Trustees (Board) properly audited claims prior to payment and ensured written quotes were obtained for purchases and public works contracts.

### Key Findings

The Board did not properly audit claims prior to payment or ensure written quotes were obtained as required.

- The Board reviewed abstracts (listings of claims) but generally did not review the claims before approving payments.
- Health insurance claims totaling \$495,104 were not approved for payment by the Board, and claims totaling \$52,000 to the local Chamber of Commerce did not include receipts as required.
- Of the purchases totaling \$239,411 from 34 vendors we examined, Village officials purchased goods and services totaling \$141,269 from 27 vendors without obtaining written quotes or retaining supporting documentation of their solicitation efforts or justifications for not seeking competition, as required.
- The Village's procurement policy did not comply with New York State General Municipal Law (GML).

### Key Recommendations

- Ensure all claims are presented to and approved by the Board before payments are approved.
- Update procurement policy to comply with GML and comply with the revised policy.

Village officials agreed with our recommendations and indicated they have initiated or planned to initiate corrective action.

### Background

The Village is located in the Town of Clayton in Jefferson County and is governed by an elected five-member Board, composed of the Mayor and four Trustees.

The Board is responsible for the general management and oversight of Village operations, including auditing and approving claims for payment. The Mayor, as the Village's chief executive officer, is responsible for its day-to-day management under the Board's direction. The Treasurer, as the Village's chief fiscal officer, generally represents the Village in the conduct of its financial affairs.

Village department heads are responsible for obtaining quotes, or maintaining other documentation evidencing their solicitation efforts and other justifications, for purchases under competitive bidding thresholds.

#### Quick Facts

##### Total Claims in Audit Period

Number of Claims	1,368
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Amount of Claims	\$6.7 million
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### Audit Period

June 1, 2019 – December 31, 2020

# Claims Auditing

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## What is an Effective Claims Audit Process?

An effective claims audit process ensures that every claim against a village is subjected to an independent, thorough and deliberate review; that each claim contains enough supporting documentation to determine whether it complies with statutory requirements and village policies (e.g., procurement policy); and that the amounts claimed represent actual and necessary village expenditures.

Auditing and approving claims is an important part of a board's responsibility to oversee village expenditures. It is also an important internal control because it segregates two key functions: management's purchase of goods and services and the authorization of payments for those goods and services. The minutes of board meetings should reflect what claims have been audited and whether they were allowed or disallowed, in whole or in part.

Village boards are also required to adopt written policies and procedures for procuring goods and services not subject to competitive bidding requirements. Using a competitive method, such as a request for proposal (RFP) process or verbal or written quotes, helps ensure that quality goods and services are obtained at a reasonable cost and avoids the appearance of favoritism or impropriety.<sup>1</sup> In lieu of directly seeking competition for these goods and services, a village is authorized to make purchases using contracts awarded by the New York State Office of General Services (State contracts) or contracts bid by other governments.

The Village's procurement policy (policy) requires officials to solicit and document quotes within certain dollar thresholds before procuring goods and services. The policy states a good faith effort should be made to obtain the required number of quotes and requires documentation for each action taken in connection with each procurement. If officials are unable to obtain the required number of quotes, they should document the attempts made to obtain them.

The policy also defines some exceptions to seeking competition and sets forth circumstances when, or types of procurements for which, the solicitation of quotes has been determined to not be in the Village's best interests. For example, the policy states that it is not in the best interest of the Village to solicit alternate quotes in emergency situations when goods and services must be purchased immediately because a delay to seek alternate quotes may threaten the life, health, safety or welfare of residents. In these situations, appropriate documentation should be maintained to show why quotes were not obtained, such as a memo from the Village official detailing the circumstances which led to the emergency purchase.

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<sup>1</sup> Refer to our publication *Seeking Competition in Procurement* available on our website at [www.osc.state.ny.us/localgov/pubs/lgmg/seekingcompetition.pdf](http://www.osc.state.ny.us/localgov/pubs/lgmg/seekingcompetition.pdf)

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Using a competitive method... helps ensure that quality goods and services are obtained at a reasonable cost and avoids the appearance of favoritism or impropriety.

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The Board should monitor and enforce compliance with the Village's policy. This helps ensure the Village obtains goods and services of the required quantity and quality at competitive prices and protects against favoritism, extravagance, fraud and corruption.

### **The Board Did Not Audit All Claims Before Approving Payments**

Even though the Board reviews abstracts and approves the payment of claims listed on the abstracts at its regular monthly Board meetings, the Mayor and a Board member told us that the Board does not audit all claims. Instead, Village department heads are responsible for reviewing and approving their respective claims to verify that each claim is a proper charge and that the goods or services have been received. Department heads also write their initials on a claim to evidence their review and record the expenditure account code on the claim for accounting purposes.

The claims and supporting documentation were available in the Village Clerk's (Clerk's) office for the Board members to review, but they did not regularly review them. A Trustee told us the Board only reviewed a claim if they had a question about an item on the abstracts, which are provided to the Board prior to its meetings. The Mayor told us she reviews the abstracts and occasionally reviews certain claims, such as those for attorneys and engineers, in order to ensure the times charged for the applicable fees are reasonable.

We reviewed 86 claims paid during the audit period totaling \$1,087,095 to determine whether they were adequately supported by sufficient documentation, were for appropriate purposes, and included evidence that the goods or services were received, mathematically accurate and approved by the Board before payment.<sup>2</sup> Although we did not find inappropriate payments, we identified a monthly premium payment for employee health insurance costing \$13,091 that was not listed on an abstract and approved for payment by the Board. Based on our review of abstracts and discussions with the Treasurer and Mayor, the monthly health insurance invoices, which totaled \$495,104 during our audit period, were not included on abstracts provided to the Board and there was no review of the related claims by anyone other than the Treasurer.

The Clerk told us she only included invoices to be paid by check on the abstracts and not invoices paid electronically, such as health insurance, because she was unaware invoices paid electronically should also be included. While the Village has entered into a written agreement that reflects the monthly contribution rates for single, two-person and family coverage over a three-year period, the agreement does not identify the monthly claim amount or payment due from the

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The claims and supporting documentation were available to the Board members to review in the Clerk's office, but they did not regularly review them.

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<sup>2</sup> Refer to Appendix B for information on our sampling methodology.

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Village. Therefore, the Board should audit and approve the monthly insurance claims (invoices) so it can review total cost paid by the Village, as well as the covered individuals.

We also identified two payments totaling \$52,000 made to the local Chamber of Commerce (Chamber) that were not paid according to the terms of the written agreements. The Village contracts annually with the Chamber for publicity, advertising and professional marketing services. The annual agreements stipulate that the Village will reimburse the Chamber upon submission of receipts for costs incurred up to \$26,000 for printing and distributing 85,000 copies of brochures and 10,000 rack cards (calendar of events).

During both of the 2019-20 and 2020-21 fiscal years, the Village paid the Chamber \$26,000 based on claims that included vague descriptions for the purpose of the payments (e.g., “2019-2020 Per Budget”) and the written agreement attached as support. Although Village officials obtained copies of the annual brochures produced by the Chamber, they did not require the Chamber to provide receipts supporting the costs incurred for printing and distributing the materials as required by the agreements.

During our audit, the Mayor obtained the invoices from the Chamber, at our request, which showed the Chamber incurred over \$26,000 in costs in both years for the printing and distribution of promotional materials for the advertising and marketing of the 2019 and 2020 tourist seasons. However, the supporting receipts showed that the Chamber produced 80,000 brochures each year instead of the 85,000 copies specified in the agreements. The receipts indicated 10,000 rack cards were printed for the 2019 tourist season, but not that they were provided for the 2020 season. We contacted a representative from the Chamber who told us that no rack cards were printed for the 2020 season due to the COVID-19 pandemic. Had officials obtained the receipts and compared them to the agreements, they may have identified that the Chamber was not providing all products and services outlined in the agreements. The Mayor had no explanation for why the Village did not obtain receipts from the Chamber to support the payments.

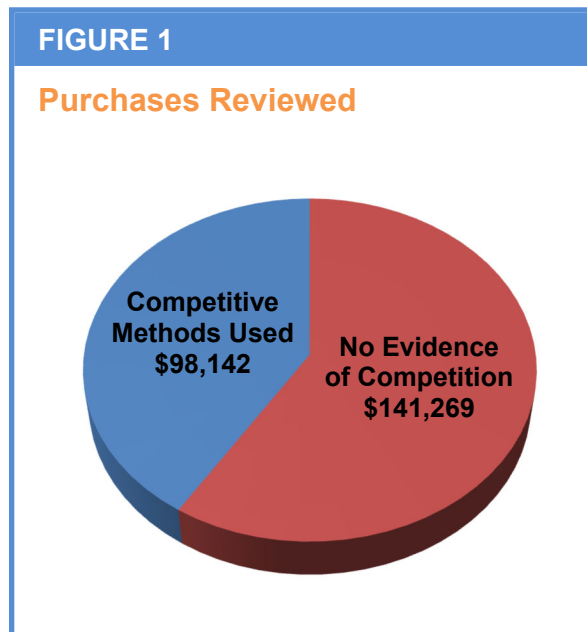
When the Board does not conduct a thorough and independent review of the claims and claims are paid without Board approval, or paid not in accordance with contract terms, there is an increased risk that inaccurate or improper payments could be made.

### **Required Quotes Were Not Always Obtained**

The Village’s policy requires officials to obtain two written quotes for both purchase and public works contracts between \$1,000 and \$4,999, and three written quotes between \$5,000 and \$34,999.

The policy provision requiring written quotes for purchase contracts up to \$35,000 is inconsistent with GML, Section 103, which generally requires villages to advertise for competitive bids for purchase contracts exceeding \$20,000 and public works contracts exceeding \$35,000. During our audit, Village officials told us they plan to amend their policy to require three written quotes for purchase contracts between \$5,000 and \$20,000, so the policy will be consistent with the GML bidding thresholds.

We reviewed purchases from 34 vendors who were paid a total of \$239,411 during the audit period to determine whether officials obtained written quotes or used other methods of competition (e.g., State contracts), as required by Village policy. We found that quotes or supporting documentation were not obtained, or available for review, for purchases from 27 vendors totaling \$141,269 (Figure 1).



For example:

- The Village paid four vendors a total of \$46,674 for water and sewer system supplies, repairs, and equipment. The water and sewer department supervisor told us quotes were obtained for these purchases; however, she was unable to locate the quotes or any supporting documentation.
- The Village paid seven vendors a total of \$34,029 for service contracts to repair or maintain water and sewer system components. The water and sewer department supervisor told us the Village typically purchases the service contract from the same vendor who initially installed the equipment, so the Village did not obtain quotes from other potential vendors. Because the Village did not seek any competition before entering into contracts, it may not have procured these services at the best price.
- The Village paid three vendors a total of \$11,535 for pump parts and repairs, water meter equipment, and to purchase a grinder pump. The water and sewer department supervisor told us that quotes were not obtained for these purchases since the Village has standardized these items. We reviewed the Board resolution authorizing the standardization of water meter and pump equipment for reasons of efficiency and economy. However, the Board's



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resolution to standardize these items does not eliminate the need for officials to solicit written quotes from vendors as required by the policy.

- The Village paid a vendor \$11,594 for tank pumping services, two vendors a total of \$3,760 for dock repairs, one vendor \$1,800 to repair a loader bucket, and another vendor \$1,500 for the purchase of a high-pressure sewer hose. The water and sewer supervisor told us the tank pumping service was an emergency as a result of overflow caused by a storm. The Department of Public Works (DPW) Superintendent told us that quotes were not obtained for the remaining purchases because they were emergency situations requiring immediate action. For example, the dock repair was needed because the docks were not securely fastened and broke free, the loader bucket repair was needed in order to load road salt onto plow trucks in the winter, and the sewer hose was needed for maintaining sewer equipment. However, officials did not provide documentation detailing the circumstances that led to these emergency purchases and the reason it was not in the Village's best interest to obtain quotes.
- The Village paid \$7,295 to repair an oil leak on a plow truck. The DPW Superintendent told us that this was a sole source purchase because the vendor was the closest in proximity who specializes in the brand of truck used by the Village. However, officials did not provide documentation showing they attempted to identify other vendors who could do the repairs and determined this vendor was the only viable option.

These exceptions occurred because the Board relied on department heads to obtain and document the required quotes, or to retain documentation showing the actions they took to solicit competition and/or the reasons quotes were not obtained. There was no process in place for the Mayor or Board to monitor or enforce compliance with the policy because department heads were not required to attach quotes to claims or provide other documentation demonstrating purchases complied with the policy. Had the Board audited all Village claims, it may have questioned whether department heads were obtaining quotes or maintaining documentation of the actions taken in connection with each procurement.

Village officials provided us with adequate evidence showing they used competitive methods to procure goods and services totaling \$98,141 from seven vendors. Five of these purchases totaling \$81,562 were procured under State contracts. Two of the five purchases (a vehicle costing \$32,469 and road salt costing \$21,740) exceeded the \$20,000 GML threshold for competitive bidding; officials followed the GML requirements for these purchases even though the policy indicated three written quotes were required. In addition, Village officials properly solicited quotes for the purchase of water equipment fittings costing \$14,931 and paint costing \$1,648.



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Although all the payments we examined were for appropriate purposes, because Village officials did not always seek competition or document their decision-making process when competition was not sought for certain purchases, they cannot be sure that goods and services were procured in the most prudent and economical manner in the best interest of taxpayers.

## **What Do We Recommend?**

The Board should:

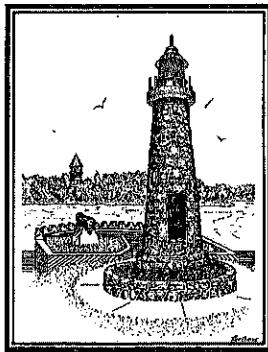
1. Conduct a thorough and deliberate audit of all claims prior to approving them for payment.
2. Ensure all claims are presented on abstracts for audit and approval and are paid in accordance with contractual terms.
3. Ensure claims for the Chamber are supported by receipts and that services are rendered in accordance with the contract terms before approving payments.
4. Update the procurement policy to be consistent with GML thresholds for obtaining written quotes for purchase contracts.
5. Ensure officials and employees procure goods and services not subject to the competitive bidding requirements in accordance with the procurement policy.

Village officials should:

6. Obtain written quotes as required by the procurement policy for all goods and services below the bidding threshold.
7. Follow policy requirements by documenting each action taken with each procurement, such as for emergency and sole source purchases.

# Appendix A: Response From Village Officials

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August 19, 2021

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RE: Village of Clayton response to audit #2021M-81

Dear Chief Examiner Wilcox,

We reviewed the Claims Auditing audit report prepared by your office. In our response, we will address each of your specific recommendations with our audit response and corrective action plan.

### OSC Recommendation 1

**Audit response:** We agree with your audit finding.

**Corrective Action:** All claims will be provided to the board for review at each regular board meeting. Board members will sign off that they have reviewed the claims being authorized to pay.

### OSC Recommendation 2

**Audit response:** We were of the understanding that per municipal law the 3 year contract with New York State Teamsters Council Health met the exception ruling that amounts becoming due upon lawful contracts exceeding one year did not need prior approval. The monthly insurance bills were reviewed for accuracy by our Treasurer each month.

**Corrective Action:** As recommended we will include the monthly health insurance bill in the abstract for the board the review.

### OSC Recommendation 3

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**Audit response:** The Village values the services provided by the Chamber. Clayton is a seasonal tourist attraction and our local business's rely on the surge of visitors from May to October.

**Corrective action:** As recommended we will ensure that we collect proof from the Chamber for expenses incurred in the distribution and promotional materials for advertising and marketing in accordance with the agreement the Village has with the Chamber.

**OSC Recommendation 4-**

**Audit response:** We agree with your finding.

**Corrective action:** The Village will review and update the procurement policy to align with GML thresholds by October 30, 2021.

**OSC Recommendation 5-7**

**Audit response:** We believe our department heads have done a good job monitoring and searching for the best prices for goods and services. However as you recommended the board should support their initiatives and ensure all the appropriate steps have been taken and documented.

**Corrective action:** Beginning November 1, 2021 after the procurement policy has been updated and approved by the board all department heads will provide supporting documentation with each claim. As part of the claims auditing process the board will ensure all quotes and documentation have been provided in adherence with the procurement policy before authorizing payment.

We appreciate your review and comments. They help us evaluate the decisions and processes we follow.

Very truly yours,

Norma Zimmer

Mayor

## Appendix B: Audit Methodology and Standards

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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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and reviewed Board meeting minutes to gain an understanding of the claims audit and approval process and relevant policies and procedures.
- We also interviewed Village officials and reviewed relevant laws and the Village's policy and procedures to gain an understanding of the procurement process.
- We tested a random sample of 50 claims, totaling \$776,067, which we selected using a computerized spreadsheet function, to determine whether these claims were audited and approved by the Board before payment, supported by adequate invoices and documentation, included evidence that the goods or services were received, and were for legitimate purposes, mathematically accurate and in accordance with policies.
- We used our professional judgment to select a sample of 36 claims totaling \$311,028 to test for the same parameters as in our random test sample. We selected claims that posed a higher risk for inappropriate Village expenditures, including payments to Board members or other officials, unrecognized vendor names, credit card payments, and purchases from vendors that were potentially unrelated to Village operations.
- We reviewed electronic cash disbursement data for the audit period and sorted data to select the population of purchases subject to quotes and RFPs under the Village's policy.
- We used our professional judgment to select 34 vendors who were collectively paid a total of \$239,411 for 34 purchases during the audit period. We tested the related claims and supporting documentation to determine whether officials obtained written quotes as required by Village policy or used other competitive methods (e.g., State contract, county contract). We selected our sample from the cash disbursement data, excluding purchases that aggregated to more than \$35,000 within a year. We also excluded payments made to school districts, municipalities, professional service providers, debt, and payroll; transfers to other Village funds; employee reimbursements; and annual payments to vendors that did not meet the policy's \$1,000 threshold for obtaining written quotes. We identified 84 vendors who were collectively paid \$1,001,844 during the audit period and selected our sample of 34 vendors with no expectations of more or fewer exceptions.

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- We obtained written representations of outside business interests of Board members, key Village officials and employees involved in the procurement process and their spouses. We compared the disclosures to cash disbursement records during the audit period to determine whether the Village entered into any financial transactions that could conflict with key decision makers' outside business interests.

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.

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.

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. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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.

## Appendix C: Resources and Services

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### **Regional Office Directory**

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

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

<https://www.osc.state.ny.us/local-government/publications>

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

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

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

<https://www.osc.state.ny.us/local-government/publications>

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

[www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

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

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf>

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

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