

City of Cortland

Credit Accounts & Employee Reimbursements

MAY 2021



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

Contents

Report Highlights	1
Credit Accounts & Employee Reimbursements	2
How Should the Council Ensure Claims for Credit Accounts and Employee Reimbursements are Appropriate?	2
Claims Were Not Properly Supported and Were for Questionable and Inappropriate Charges	2
What Do We Recommend?	4
Appendix A – Response From City Officials	5
Appendix B – OSC Comment on the City’s Response	7
Appendix C – Audit Methodology and Standards	8
Appendix D – Resources and Services	10

Report Highlights

City of Cortland

Audit Objective

Determine whether City of Cortland (City) officials ensured claims for credit account purchases and employee reimbursements were properly supported and for appropriate purposes.

Key Findings

City officials did not ensure all credit account purchases and employee reimbursements were properly supported and for appropriate purposes.

No formal City-wide policies were in place to address the usage, documentation and approval of credit account purchases. As a result, 322 of the 436 (74 percent) claims we reviewed were either not properly supported or for questionable or inappropriate purchases. We found:

- 164 credit charges totaling \$9,905 were not supported properly.
- 158 claims totaling \$4,331 were for questionable and inappropriate purposes, including \$2,591 for meals.

Key Recommendations

- Adopt policies that provide guidelines for appropriate usage, documentation requirements and the approval process for credit account purchases and employee reimbursements.
- Thoroughly audit claims and require adequate supporting documentation to ensure that claims are for appropriate City expenditures.

Except as specified in Appendix A, City officials generally agreed with our recommendations and indicated they will take corrective action. Appendix B includes our comment on the issues raised in the City's response letter.

Background

The City is located in Cortland County and is governed by a Common Council (Council) composed of eight members and a Mayor who is also the City's chief executive officer. The Council is responsible for the City's overall financial management and safeguarding its resources. The Council-appointed Director of Administration and Finance (Director) is the chief fiscal officer.

The City Charter (Charter) governs City operations and states that the Director is responsible for the audit and approval of claims against the City. The City has three credit cards and two retail store credit accounts which are regularly used by five City departments: Finance, Police, Fire, Public Works (DPW) and Youth Bureau.

Quick Facts

2019 Budgeted Appropriations	\$21 million
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Audit Period Activity

Credit Card Purchases	\$164,009
Reimbursements to Key Employees	\$33,521

Audit Period

January 1, 2018 - December 31, 2019

Credit Accounts & Employee Reimbursements

How Should the Council Ensure Claims for Credit Accounts and Employee Reimbursements are Appropriate?

The council should adopt policies addressing city credit cards and retail store accounts¹ and employee reimbursements, and ensure that they are followed by all departments. These policies should include who is authorized to use credit accounts or request reimbursements, the documentation necessary to support purchases and what are appropriate purchases. For instance, cities are tax exempt and should not pay sales tax nor should they allow the purchase of personal items or alcoholic beverages. Furthermore, typically, meal expenses are only allowed when a city official or employee is traveling outside of his or her regular work area on authorized official business, or is prevented from taking time off for meals due to a pressing need to complete the business at hand.

An effective claims auditing process should be established to ensure every claim made against the city is subjected to an independent, thorough and deliberate review, contains enough supporting documentation to determine whether it complies with city policies, and represents authorized, actual and necessary city expenditures. City officials should review and approve credit account purchases by reconciling statements with itemized receipts, invoices and purchase orders. Officials should also ensure that employee reimbursements are not made for purchases that have already been charged to city credit accounts. In addition, claims should be approved and paid timely to avoid unnecessary costs, such as late fees and interest penalty charges.

Claims Were Not Properly Supported and Were for Questionable and Inappropriate Charges

The Council has not adopted written policies addressing the appropriate usage, required documentation and approval process for credit accounts and employee reimbursements. The City has three credit cards and two retail store credit accounts which are regularly used by five City departments: Finance, Police, Fire, DPW and Youth Bureau. Therefore, each of the five City departments using credit accounts have implemented their own procedures for authorized usage and documentation required to support purchases. Additionally, no one in the Department of Administration and Finance audits claims as required in the Charter. Instead, the Accounts Payable Clerk performs a cursory review of claims prior to processing payment. As a result, claims were not sufficiently and properly supported and were paid for questionable and inappropriate charges.

We reviewed 332 credit account claims totaling \$38,216 of the \$164,009 paid during the audit period, to determine whether purchases were properly supported

The Council has not adopted written policies for credit accounts and employee reimbursements.

¹ Hereafter collectively referred to as "credit accounts."

and appropriate. We also reviewed all 104 employee reimbursements totaling \$33,521 made during the audit period to key employees involved in the credit account purchasing and reimbursement process, to determine whether the employee reimbursements were properly supported and appropriate. We found 322 claims totaling \$14,236 were paid without sufficient documentation and/or for questionable and inappropriate charges as outlined in Figure 1.

Figure 1: Unsupported, Questionable and Inappropriate Claims

Description	# of Instances	Amount
Claims Reviewed	436	\$71,738
Unsupported Claims	164	\$9,905
Questionable and Inappropriate Charges	158	\$4,331
Questionable and Inappropriate Charges Details		
Questionable Meals	56	\$2,591
Sales Tax	93	\$1,502
Personal Items (florist, fan, cologne, hardware)	6	\$186
Reimbursed Credit Card Purchase	1	\$33
Alcoholic Beverages Purchased	2	\$19

We found 128 credit account purchases totaling \$6,673, and 36 employee reimbursements totaling \$3,232 did not have sufficient supporting documentation, such as: itemized receipts, invoices, evidence of the purpose of the event/ purchase or which employees were involved. Officials subsequently provided additional supporting documentation and/or explanations for 109 purchases. We determined 81 of these totaling \$5,135 to be for appropriate City purposes and the remaining 28 we included in the total questionable charges. We did not receive any additional supporting documentation for 34 purchases totaling \$1,118 made on the Finance Department credit account, which were mostly to local restaurants; we also included these in the total questionable charges.

Furthermore, none of the 56 questionable meals involved a City official or employee who traveled outside of the local work area, or who was prevented from taking time off because of a pressing need to complete the business at hand. There were 25 instances totaling \$1,542 that were meals provided at regularly scheduled employee meetings and recognition events, such as retirement and birthday parties and swearing in ceremonies. The remaining 31 instances totaling \$1,049 were charged by the Director to the Finance Department’s credit account for meals at local restaurants for meetings held during normal business hours. These meetings typically included the Mayor, one specific Council member and the City Attorney. The Director also met with auditors, consultants, contractors and engineers. Finally, the City paid \$213 in late fees and interest charges because it did not approve and pay the credit account statements timely.

None of the 56 questionable meals involved a City official or employee who traveled outside of the local work area or who was prevented from taking time off due to pressing business needs.

These exceptions occurred because the Council did not establish effective City-wide policies to address appropriate usage, documentation requirements and the approval process for credit account purchases and employee reimbursements. Moreover, there is no guidance governing appropriate spending on travel, conference, meals and sales tax exempt charges. Without proper policies and guidance in place, department heads are left to decide for themselves what constitutes an appropriate purchase. Further, the Department of Administration and Finance is hindered in its ability to properly audit claims and determine that credit account purchases and employee reimbursements are for appropriate and authorized City expenditures.

We provided officials with travel expense and credit card guidance available in our publications titled *Travel and Conference Expense Management*² and *Cost-Saving Ideas: Credit Card Accountability*.³

What Do We Recommend?

The Council should:

1. Adopt policies that provide guidelines for appropriate usage, documentation requirements and the approval process for credit account purchases and employee reimbursements.
2. Ensure that the City-wide policies are followed by all departments.

The Director should:

3. Ensure that credit account and employee reimbursement claims are thoroughly audited, including verifying required documentation to support purchases is intact and that purchases are appropriate; credit account statements should be reconciled to itemized supporting documentation before approving claims for payment.
4. Ensure that credit account statements are paid timely to avoid unnecessary late fees and interest penalty charges.

² For guidance, see https://www.osc.state.ny.us/localgov/pubs/lgmg/travel_expense.pdf

³ For guidance, see <https://osc.state.ny.us/localgov/costsavings/creditcard.htm>

Appendix A: Response From City Officials



City of Cortland
City Hall – Mayor’s Office
Mayor Brian Tobin

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To whom it may concern,

This shall serve as the city of Cortland’s official response to the Office of the State Comptroller’s examination of credit accounts and employee reimbursements, which we received the draft in January of 2021. It was a difficult task to complete during a pandemic, and I understand it took multiple people a lot of time to complete this report, so we recognize the efforts of all involved. The city appreciates the feedback, and looks forward to implementing policy changes that keep us consistent with best practices in government accounting.

We recognize and agree that there is no comprehensive policy to direct department heads and employees as to usage, how to document, and what is needed to approve credit card purchases. This has been a topic of discussion between council, the Director of Administration and Finance, and the mayor for several years. Based upon this report, I am confident that the city will move to formalize a city-wide policy.

The city understands that there were some claims that supporting documentation was not readily available to the investigators. Working remotely, on varied shifts, and with other issues arising, may have contributed in miscommunication amongst city staff about supplying all documentation. We will review our internal procedures to make sure we are keeping appropriate supporting documentation and that in the future it will be readily available.

As mayor, I am still concerned about food expenditures that have been deemed not open to reimbursement. For clarity I quote the report, and place my relevant questions in red. The report states, “...this Office has expressed the opinion that meal expenses may not be reimbursed unless a local official is traveling outside of his or her regular work area on official business for an extended period of time or is prevented from taking time off for meals due to a pressing need to complete the business at hand (see, e.g., 1981 Opns St Comp No. 81-13, p 13; 1979 Opns St Comp No. 79-717, unreported; OSC Financial Information for Fire District Officials, p 8-8).”

There are instances when we have consultants, contractors, or other relevant persons who are not from Cortland, but have been here to work with us on a specific project. In order to maximize the time together, continuing work through traditional meal times has maximized our time. Therefore, I would argue that it was a “pressing need to complete the business at hand.”

Has the office inquired to each instance, about the circumstances around the purchase, to determine if there were extenuating circumstances?

“Meals would be a proper local government charge when the local government is faced with business of an immediate nature and meetings are essential at mealtime.”

See Note 1 Page 7



Was each instance evaluated to determine if the business was of an immediate nature, and if the meeting times were essential- or was it assumed not to be?

See
Note 1
Page 7

“Under those circumstances, the furtherance of public business is the main purpose of the meetings and the food is incidental thereto (*id.*). Thus, the cost of meals while performing the usual duties of the position within the local government is generally a personal expense.

In the instant situation, the meeting in question is the usual monthly board meeting, scheduled to commence after the ordinary dinner hour. The decision to arrive several hours before the meeting to review correspondence and claims, rather than to review these materials at another time prior to or at the meeting, appears to be a matter of personal choice by each commissioner based on custom. Moreover, the dinners are normally consumed after the meeting and, presumably, the board members are no longer performing official duties (see 1982 Opns St Comp No. 82-253, p 315). Based on these circumstances, it is our opinion that the cost of the meal is a personal expense, not a fire district expense.”

If discussion during the mealtime is still about the work subject, why would it not be allowed? In the example provided, food was eaten after a meeting, and after a couple hours- not a full workday.

See
Note 1
Page 7

I look forward to answers to the above questions. Without clarity, the city cannot agree that some purchases were inappropriate.

In response to the recommendations, we wholeheartedly agree that the city should,

1. Adopt policies that provide guidelines for appropriate usage, documentation requirements and the approval process for credit account purchases and employee reimbursements.
2. Ensure that the City-wide policies are followed by all departments.

The Director should:

3. Ensure that credit account and employee reimbursement claims are thoroughly audited, including verifying required documentation to support purchases is intact and that purchases are appropriate; credit account statements should be reconciled to itemized supporting documentation before approving claims for payment.
4. Ensure that credit account statements are paid timely to avoid unnecessary late fees and interest penalty charges.”

In summary, the city disagrees with the comptroller’s interpretation of “necessary meals” and whether or not a city credit card could be used locally, for the aforementioned reasons. The city does recognize that the audit has shown some weaknesses and occasional purchases that documentation was not readily available, or may have been questionable. The recommendations from the office are taken as constructive criticism that, when completed, will keep the city consistent with best practices in the field. For that advice, we are grateful.

Sincerely,

Mayor Brian Tobin
City of Cortland

Appendix B: OSC Comment on the City's Response

Note 1

The City Council does not have policies in place that allow for the purchase or reimbursement of food expenditures outside of travel and training/conferences. Absent such guidance, typically, meal expenses are only allowed when an official or employee is traveling outside of his or her regular work area on authorized official business, or is prevented from taking time off for meals due to a pressing need to complete the business at hand. We evaluated each purchase to determine if it represented authorized, actual and necessary City expenditures. We identified 56 instances where questionable meals were purchased; 25 of these were for meals provided at regularly scheduled employee meetings and recognition events and no pressing need to complete the business at hand or extenuating circumstance was communicated to us. The remaining 31 instances were meals charged by the Director of Finance, at local restaurants, without adequate supporting documentation attached. The Director did not provide us with any additional supporting documentation, even after multiple requests during the course of our audit.

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

- We interviewed officials and other key employees and reviewed the City Charter, collective bargaining agreements, resolutions and policies to gain an understanding of the City's policies and procedures related to claims auditing, credit account purchases and allowable employee reimbursements.
- We reviewed all 127 Finance Department credit card purchases totaling \$17,608 made during the audit period, to determine whether claims were approved, contained adequate documentation to support the transactions and were for appropriate purposes.
- We judgmentally selected 205 credit account purchases totaling \$20,608 out of a total population of \$164,009 made during the audit period on the Fire and Police Departments' credit cards, and two retail credit accounts to determine whether claims were approved, contained adequate documentation to support the transactions and were for appropriate purposes.
- We reviewed all 104 reimbursements totaling \$33,521, made to City officials and other key employees during the audit period to determine whether claims were approved, contained adequate documentation to support the purchase and were for appropriate purposes.
- We cross referenced the credit card purchases with the employee reimbursements to ascertain if any employee was reimbursed for purchases made on a City credit account.

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 Council 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 Council to make the CAP available for public review in the City Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

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

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

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

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

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

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

www.osc.state.ny.us/local-government/academy

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