

# Town of Hounsfield

## Claims Auditing

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JANUARY 2020

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

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# Report Highlights

## Town of Hounsfield

### Audit Objective

Determine whether claims were adequately documented, for appropriate purposes and properly audited and approved prior to payment.

### Key Findings

- The Board did not audit claims before approving payments.
- Of 166 claim vouchers reviewed, totaling \$783,400, the Supervisor paid \$124,000 in claims (16 percent) that were either not presented to the Board or improperly paid prior to Board approval.
- Eleven claims totaling \$10,500 lacked adequate supporting documentation and seven claims for \$4,100 were paid twice.
- The Board did not ensure that procurements of commodities, goods and services totaling \$172,000 complied with bidding requirements and/or the Town's procurement policy.

### Key Recommendations

- Perform a thorough and deliberate audit of claims and ensure each claim is adequately supported before approving it for payment.
- Update the resolution authorizing advance payment of claims so that only claims allowed by law are paid prior to Board audit.
- Ensure that Town personnel involved in the procurement process are aware of, and comply with, competitive bidding statutes and the Town's procurement policy.

Town officials agreed with our recommendations and indicated they planned to take corrective action.

### Background

The Town of Hounsfield (Town) is located in Jefferson County. The Town is governed by a five-member Board composed of four Board members and an elected Town Supervisor (Supervisor). The Supervisor serves as the Town's chief executive officer and chief fiscal officer. The Board is responsible for the general management and control of financial operations, including auditing and approving claims for payment.

#### Quick Facts

Population	3,470
2018 Budgeted Appropriations	\$2.8 million
Number of Claims in Audit Period	940
Amount of Claims in Audit Period	\$2.8 million

### Audit Period

January 1, 2018 – May 31, 2019

# Claims Auditing

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## What Is an Effective Claims Audit Process?

An effective claims processing system ensures that every claim against the Town 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 Town policies (e.g., purchasing policy); and that the amounts claimed represent actual and necessary Town expenditures.

The audit and approval of claims is an important Board responsibility to oversee Town expenditures. The Board is required to audit all claims against the Town and, by resolution, order the Supervisor to pay the amounts allowed. The Board may by resolution authorize the payment in advance of the audit of claims for utility services (i.e., electric, gas, water, sewer, fuel oil and telephone), postage, freight and express charges.<sup>1</sup> However, all such claims must be presented at the next regular Board meeting for audit.

New York State General Municipal Law (GML)<sup>2</sup> generally requires towns to solicit competitive bids for purchase contracts that aggregate to more than \$20,000 and public works contracts that aggregate to more than \$35,000 within a year. In lieu of soliciting competitive bids, towns may use other publicly awarded government contracts, such as those of a county or the New York State Office of General Services (State contract).

The Town's procurement policy, initially adopted on January 14, 2009, provides thresholds for competitive bidding and the procedures Town officials must follow for the procurement of goods and services not subject to competitive bidding requirements.<sup>3</sup> However, although the Board annually re-adopted its procurement policy, it did not update the policy to include the current GML thresholds. The Town's procurement policy requires officials to competitively bid purchase contracts in excess of \$10,000 and contracts for public work in excess of \$20,000.

It is important for the Board to monitor compliance with competitive bidding requirements and the procurement policy to help ensure the prudent and economical use of public money and to guard against favoritism or other improprieties.

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

Even though the Board approves claims at its regular monthly Board meetings, we were informed by Town officials and employees that only one Board member regularly reviews the claims before the Board approves the claims for payment.

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1 New York State Town Law, Section 118(2)

2 GML, Section 103

3 As required by GML Section 104(b)

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Although he was not designated by the Board to do so, this Board member arrives early for the Board meetings and scans through the claims prior to the Board meetings. Other Board members review the abstract (list of claims) before approving the claims for payment, but they typically do not review any of the individual claims. The Board member told us he looks for irregularities (for example, the lack of signatures or itemized receipts, high dollar amounts, or unknown vendors), but does not review claims for compliance with the Town's procurement policy to determine whether officials used appropriate competitive methods when making purchases.

### **The Board Did Not Verify That Claims Had Sufficient Documentation**

We reviewed 166 claim vouchers totaling \$783,418<sup>4</sup> to determine whether they were supported by sufficient documentation, for appropriate purposes, and audited and approved before payment when required. Although we did not find inappropriate payments, we determined that 23 claims had at least one exception, and that none of the claims were audited by the Board. For example:

- Two claims for road work and materials totaling \$100,159 were not presented to the Board for audit and approval. On October 10, 2018, the Board gave the Supervisor permission to pay bills for highway sealing before the next regular meeting. However, the minutes do not identify vendor names or dollar amounts approved, and we found no evidence that these claims were presented to or reviewed by the Board at the next meeting. Based on the invoice dates and payment terms, the Board could have audited and approved these claims for payment at its November meeting without incurring any late fees.
- Three claims totaling \$23,914 were inappropriately paid in advance of audit. These claims were for the purchase of road salt (\$21,381), a radio tower (\$2,283) and a grant application fee (\$250). None of these claims required payment before the next scheduled Board meeting.
- Seven claims totaling \$4,086 resulted in duplicate payments to vendors. These payments were for purchases of diesel fuel, propane, hardware store supplies, utilities and electrical work that the Town had previously paid for. Some of these duplicate payments occurred because the Supervisor made payments based on copies of invoices or paid monthly statements in addition to the original invoices. We verified that the vendors either credited the Town's account or returned a check to the Town to correct the overpayments.
- Eight claims totaling \$3,561 lacked itemized receipts or invoices to support the payments made. Some examples include: a radio tower (\$2,283), various parts and supplies (\$908) and cell phone service (\$196).

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<sup>4</sup> See Appendix B for information on our sampling methodology.

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- Three claims for gasoline purchases, totaling \$6,911, were not adequately supported. One claim did not include a receiving slip to confirm fuel costing \$1,708 was actually received. One claim paid in May 2018 was \$1,298 more than the total of the attached invoices and another claim paid the same month was for \$975 less than the attached documentation, with no explanation included for the differences in either payment.

In addition, the Board adopted a resolution authorizing bills to be paid in advance of audit for utilities, postage, insurance, and other items deemed necessary when it appears bills would not be paid timely if held to the next regular board meeting. However, there is no statutory authority for the Board to allow payments for insurance or discretionary items, other than those specified in Town Law, prior to audit and approval of the related claims.

When Town officials do not ensure that all claims are adequately supported and the Board does not conduct a thorough and effective audit of claims prior to approving them, there is an increased risk that the Town could incur unnecessary costs or pay for goods and services that were not actually received or were not for proper Town purposes.

### **The Board Did Not Ensure Compliance With Competitive Bidding Statutes and the Procurement Policy**

When reviewing the 166 claims, we tested 30 purchases totaling \$510,706 to determine whether Town officials complied with competitive bidding requirements and the Town's procurement policy.<sup>5</sup> We found that Town officials did not comply with competitive bidding requirements and/or the procurement policy for eight purchases totaling almost \$172,000 during our audit period.

- The Town purchased a used plow truck from a dealer for \$30,000 without soliciting competitive bids as required by its procurement policy and GML. While there is an exception to the competitive bidding requirement for purchases of surplus or second-hand equipment from other governments, it does not apply to purchases from private dealers.
- The Town purchased a new salt spreader for \$17,259 and a rear mower for the tractor for \$16,825. The Highway Superintendent obtained three written quotes for each of these items. However, according to the Town's procurement policy, they should have been bid since the costs exceeded \$10,000.

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<sup>5</sup> The Town made multiple payments for procurements of gasoline and diesel fuel. We expanded our original sample of 166 claims to review all the gasoline and diesel fuel claims paid during our audit period.

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- The Town purchased diesel fuel totaling over \$66,000 during our audit period (\$43,000 in 2018 and \$23,000 from January through May 2019) without seeking competitive bids. The Highway Superintendent told us he used the same vendor as the prior Highway Superintendent and he assumed the vendor had a State contract. However, we determined that the diesel was not purchased from State contract. Because the diesel fuel description on the Town's invoices did not match the State contract description, we were unable to determine how much savings, if any, the Town may have realized through State contract.
  - The Town purchased gasoline totaling over \$23,000 for our audit period (\$17,000 in 2018 and \$6,000 from January through May 2019) without seeking competitive bids as required by the Town's procurement policy.<sup>6</sup> Although the vendor used by the Town had the State contract for gasoline in 2018, it did not have a State contract in 2019. We compared the amounts the Town paid to the rates on State contract for Jefferson County and found the Town paid \$4,682 more than the State contract price during our audit period.
  - The Town paid for the repair of a truck totaling \$10,617 without seeking bids as required by the procurement policy. Town officials said this was a sole source provider but we found no evidence in the minutes showing the Board had passed a resolution to make this determination, as required by the procurement policy.
  - The Town purchased fluoride totaling \$3,222 and a new water trailer for \$4,700 without seeking written quotes as required by the Town's procurement policy.

When the Board does not verify that Town officials are complying with competitive bidding requirements and the Town's procurement policy when making purchases, the Town could be paying more than necessary for goods and services and failing to use available measures to guard against favoritism, improvidence, fraud and abuse.

## What Do We Recommend?

The Board should:

1. Conduct a thorough and effective audit of all claims prior to approving them for payment. Such an audit should ensure that all claims contain sufficient supporting documentation.

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<sup>6</sup> The aggregate gasoline purchases for 2019 are likely to exceed the \$10,000 threshold for competitive bidding specified in the procurement policy.

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2. Update the resolution authorizing the payment of claims in advance of audit and ensure only claims allowed by law are paid prior to Board audit (i.e., utility services, postage and freight and express charges).
  3. Ensure that Town personnel involved in the procurement process are aware of, and comply with, competitive bidding statutes and the Town's procurement policy.
  4. Consider updating the procurement policy to reflect current statutory billing thresholds.

The Supervisor should:

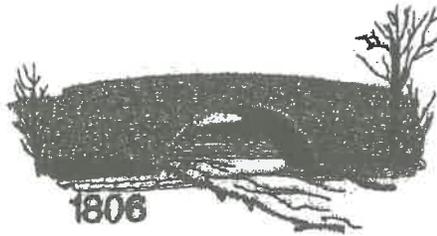
5. Ensure that payments are based on original invoices and have not been previously paid.

# Appendix A: Response From Town Officials

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*Timothy Scee  
Supervisor*

*Brenda Bockus  
Town Clerk*



***Town of Hounsfield***  
*18774 Co. Rt. 66*  
*Watertown, New York 13601*  
*315-782-6380*  
*fax 315-782-2376*

*John LaDuc  
Carson Lennox  
Diane Nier  
Beth Authur  
Councilmembers*

January 14, 2020

Dear Sir,

The Town of Hounsfield does hereby agree to the results of the NYS Comptrollers Audit of 2019. We appreciate the opportunity to discover any errors in our operations and will make the necessary corrections moving forward.

Respectfully,

*Timothy W. Scee*  
Supervisor  
Town of Hounsfield  
18774 Co. Rt.66  
Watertown, N.Y. 13601  
315-804-3161

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Write: USDA, Director, Office of Civil Rights, 1400 Independence Ave., S. W., Washington, D.C.  
20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).*

## 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 reviewed policies and procedures and Board meeting minutes and interviewed Town officials to assess internal controls and gain an understanding of the claims audit process.
- We randomly selected two months from our audit period, May 2018 and March 2019, using a computerized spreadsheet function, to test a sample of 106 claims, totaling \$239,702. We reviewed the claims to assess whether they were for proper Town purposes, adequately supported and approved, contained evidence that the goods or services were actually received, were in compliance with Board adopted policies, and were approved by the department head and audited and approved by the Board prior to payment.
- We selected an additional sample of 60 claims totaling \$543,716 and reviewed them for the same concerns as in our random test sample. We selected claims that posed a higher risk for inappropriate Town expenditures, such as payments to Town officials, their spouses, and unrecognized vendor names; selected purchases of \$5,000 or more; credit card payments; and claims paid prior to monthly Board meetings. These claims were selected from the entire population of disbursements made during the audit period.
- We also reviewed compliance with the Town's purchasing and procurement policy as part of our audit testing of 166 claims totaling \$783,418. Because of weaknesses identified in the procurement of diesel fuel, gasoline and a used truck, we expanded our review for procurement issues to include all diesel fuel and gasoline claims paid during the audit period and any purchase over \$3,000 which would require at least three written quotes and/or bids, should the amount exceed the bidding threshold.

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 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.

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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 Town Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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