



Town of Middleburgh

Claims Audit Process

2023M-56 | July 2023

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Report Highlights

Town of Middleburgh

Audit Objective

To determine whether the Town of Middleburgh (Town) Town Board (Board) properly audited claims prior to payment.

Key Findings

The Board did not properly audit claims prior to approving them for payment. As a result, the risk is increased that claims could have been paid for inappropriate purposes. From our review of 184 claims totaling \$340,204 we found:

- The Board approved all claims without a thorough and deliberate review.
- 11 debit card purchases totaling \$2,425 were not approved by the Board prior to purchase, two of which were unsupported.
- Four claims totaling \$10,064 were approved without evidence of compliance with the Town's procurement policy.

Key Recommendations

- Conduct a thorough and deliberate audit of all claims prior to approving them for payment.
- Adequately document the justification for emergency purchases and for using sole source vendors and the reasons why solicitation of quotes is not in the Town's best interest.
- Discontinue use of the Town debit card.

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

Background

The Town, located in Schoharie County, is governed by an elected five-member Board including the Town Supervisor (Supervisor). The Board is responsible for the general oversight of Town operations and finances, including auditing claims.

The Supervisor serves as the chief fiscal officer and is responsible for the day-to-day operations.

The elected Highway Superintendent (Superintendent) is responsible for overseeing all highway department operations, including procuring goods and services.

The elected Town Clerk (Clerk) collects the claims from the department heads to prepare an abstract (list of claims). The Town's bookkeeper prepares the checks after the Board approves the abstract for payment.

Quick Facts

Claims Processed During the Audit Period

Number of Claims	930
Total Dollar Amount	\$1.6 million

Claims Reviewed

Number of Claims	184
Total Dollar Amount	\$340,204

Audit Period

January 1, 2021 – November 30, 2022

Claims Audit Process

What Is an Effective Claims Audit Process?

An effective claims audit process ensures that every claim against a 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., procurement policy) and that the amounts claimed represent appropriate town expenditures.

New York State Town Law Section 118 requires a board to audit all claims before payment. Auditing and approving claims is an important part of a board's responsibility to help ensure that tax dollars are spent efficiently, and ensure that all purchases are authorized, adequately supported and are actual and necessary expenditures before approving them for payment. The Town's procurement policy outlines the purchasing process for goods and services not required by law to be bid. The policy also requires that goods and services not subject to competitive bidding be secured using written requests for proposals, written quotations, or verbal quotations, depending on dollar amounts.

Debit cards should not be used because they pose additional risks by allowing a payment to be directly withdrawn from a town's bank account at the time of purchase, and unauthorized use may not be quickly detected. Debit card use also provides no opportunity for town officials to verify whether the purchase is for legitimate purposes before it is paid.

The Board Did Not Audit All Claims

We reviewed 184 claims totaling \$340,204 to determine whether they had adequate supporting documentation, were for appropriate Town purposes, and were audited and approved by the Board. We included claims subject to the Town's procurement policy thresholds to determine whether the Board ensured compliance with the policy.

We found that all claims tested were for appropriate purposes and most claims presented to the Board were adequately supported and approved by the Board. However, claims were not properly audited, and the Board did not ensure that all purchases subject to the Town's procurement policy were supported with appropriate verbal and written quotes, as required. Furthermore, debit card claims were unsupported and paid prior to the Board's approval.

Unaudited Claims – Although the Board approved all 173 non-debit card claims totaling \$337,779 for payment, the Board did not properly audit the claims. Instead, the Clerk read the amount of each claim from an unaudited list of claims to the Board, and the Board voted to approve them without a deliberate and thorough review. The Supervisor, bookkeeper and a Board member indicated that the Board has never audited the claims. However, they stated that if they

Although the Board approved all 173 non-debit card claims totaling \$337,779 for payment, the Board did not properly audit the claims.

question a claim, Board members will review the supporting documentation before approving it.

Debit Card – The Town has one debit card, which is linked to a general fund checking account that was created solely for debit card purchases. This account has an established limit of \$1,500. We reviewed all 11 debit card claims totaling \$2,425 to determine whether these claims were supported, for appropriate purposes and approved by the Board before payment. None of the purchases were approved prior to purchase, and three purchases totaling \$817 were not listed on an abstract and, therefore, not approved by the Board. In addition, two of those purchases totaling \$529 to a tool and equipment supply retailer were not supported. According to the Superintendent, the two unsupported purchases were for a toolbox and a pump, which we located onsite.

Procurement Policy and Quotes – We reviewed the only four claims that required quotes totaling \$10,064 from our sample of 184 claims to determine whether those purchases were supported with the minimum required number of quotes, in accordance with the Town's procurement policy. These purchases included vehicle and equipment parts and building repairs. Officials did not seek competition for the four purchases. The Superintendent stated the purchase for a truck rear end assembly totaling \$3,078 was an emergency purchase, the purchase of a conveyer belt chain totaling \$1,388 was from a sole source vendor, and the purchase of tires totaling \$810 were available from only one vendor due to supply chain issues. The Supervisor told us quotes were not obtained for repairs to a Town-owned building totaling \$4,788 because damage from water leak required immediate repairs. However, there was no evidence for any of these purchases, such as documentation in the Board meeting minutes, to support these assertions.

Without a thorough review of all claims to be paid by the Town, the Board's ability to effectively monitor Town financial operations is diminished and errors and irregularities may occur and remain undetected and uncorrected. Furthermore, when the Board does not ensure that appropriate competition is sought before purchases are made, cost savings opportunities may be missed, and those increased costs are subsequently passed on to taxpayers.

What Do We Recommend?

The Board should:

1. Conduct a thorough and deliberate audit of all claims prior to approving them for payment. Such an audit should ensure that all claims:
 - a. Contain sufficient supporting documentation such as itemized invoices or receipts and proof of competitive procurement if needed, and
 - b. Are for legitimate and necessary Town expenditures.
2. Adequately document the justification for emergency purchases and for using sole source vendors and the reasons why solicitation of quotes is not in the Town's best interest.
3. Discontinue use of the Town debit card.

Town officials should:

4. Comply with the Town's procurement policy quote requirements.

Appendix A: Response From Town Officials

Wesley Laraway
Supervisor
Renee Schmidt
Clerk/Tax Collector
Steve Kowalski
Highway Superintendent

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Town Justice

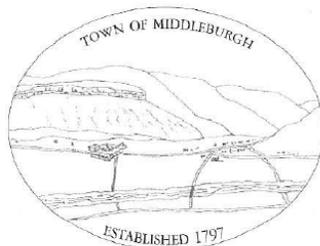
06/26/2023

To Whom it may concern,

We are in agreement with the claims audit process report and we will discontinue the use of the Town of Middleburgh debit card.
Our correction action plan will follow after our next Board Meeting.

Sincerely,

Wesley Laraway 
Town of Middleburgh Supervisor



"The Town of Middleburgh is the Heart of New York"

Appendix B: 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 Town officials and reviewed Board meeting minutes, the Board-adopted procurement policy, abstracts and claim packages to gain an understanding of the claims audit and approval process.
- We used a random number generator to select a sample of four months to review purchases made during those months. We identified 173 claims totaling \$337,779 out of the 930 claims totaling over \$1.6 million paid during the audit period to determine whether the Board properly audited the claims before approving the disbursements for payment. We identified four claims within the sample that required quotes. We traced these claims to bills, invoices and supporting documentation to determine whether they were properly supported, complied with the Town's procurement policy and were for appropriate Town purposes.
- We selected all 11 debit card purchases totaling \$2,425 to determine whether the Board audited these purchases subsequent to payment and traced these purchases to supporting documentation to determine whether they were properly supported and for appropriate Town purposes.

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, 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's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

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

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

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/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

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

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

Contact

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

Local Government and School Accountability Help Line: (866) 321-8503

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