



Town of Cheektowaga

Credit Card Purchases

Report of Examination

Period Covered:

January 1, 2015 – December 14, 2016

2017M-18



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2017

Dear Town 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 Town 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 Town of Cheektowaga, entitled Credit Card Purchases. 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 New York State 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 Town of Cheektowaga (Town) is located in Erie County and has approximately 88,000 residents. It is governed by an elected seven-member Town Board (Board), which is composed of a Town Supervisor (Supervisor) and six council members. The Board is responsible for the general management and control of the Town's financial affairs and establishing internal controls over financial operations. The Supervisor and various department heads share the responsibility for supervising and managing the Town's daily operations.

The Town provides various services to its residents, including street maintenance, snow removal, sewer service, police protection, refuse collection and general government support. These services are financed mainly by real property taxes and assessments, sales tax and State aid. The Town's 2016 budgeted expenditures for all funds were approximately \$92.3 million.

The Supervisor appointed a Director of Administration and Finance (Director) to assist her with managing the Town's daily financial affairs. The Director is the custodian of Town funds and oversees the cash disbursement and purchasing processes. The Director is also responsible for overseeing the distribution and use of Town credit cards.

Objective

The objective of our audit was to review credit card use and purchases. Our audit addressed the following related question:

- Did Town officials properly monitor credit card use and ensure credit card charges were adequately supported and for valid Town purposes?

Scope and Methodology

We examined the Town's credit card purchases and other financial records for the period January 1, 2015 through December 14, 2016.

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 are included in Appendix B of this report. 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.

**Comments of Local Officials
and Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to take corrective action.

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 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 Town Clerk's office.

Credit Card Purchases

Credit cards provide a convenient method for making small one-time purchases. However, when credit card use is not properly controlled and monitored, the Town has an increased risk that inappropriate and wasteful spending may occur. To retain a reasonable level of control over credit cards, the Board should adopt written policies addressing card distribution and use and describing procedures for monitoring usage. These policies and procedures should identify the individuals who are authorized to use credit cards, establish reasonable dollar limits for purchases, set daily limits, block certain types of vendors and describe the type of purchases allowed and the documentation necessary to support purchases.

Also, the Board should ensure that credit card users sign the policy or other documentation to indicate that they were provided with and understand the Town's policies and procedures before being issued a credit card. Town officials should review and approve employees' credit card statements and ensure that purchase orders include signatures or other evidence to indicate that goods and services were received. Furthermore, officials should review and approve credit card purchases made by department heads to provide supervisory review of those purchases and should immediately cancel Town credit cards held by users who separate from Town service.

Additionally, the Board should ensure that purchases made with credit cards comply with Town procurement policies and should audit the purchases as part of a deliberate and thorough claims audit process. The Town's purchasing policy requires that, after aggregating like purchases for the year, purchases of less than \$2,000 can be made at the discretion of the purchaser, purchases between \$2,000 and \$4,000 require oral or faxed quotes from two vendors and purchases between \$4,000 and \$10,000 require a written request for proposals and written or faxed quotes from three vendors.

The Board adopted policies and procedures to control credit card use. The credit card policy limits card use to official Town business purposes and strictly prohibits personal use. However, it does not identify specific individuals who are authorized to use credit cards, establish credit limits or set purchase restrictions. Instead, the policy authorizes the Director to issue cards to department heads or individuals designated by department head, establish credit limits and define purchase restrictions.

As of October 2016, the Director had issued credit cards to 57 employees. The cards had credit limits ranging from \$500 to \$90,000

with a combined total credit limit of \$730,000, and eight individuals had credit limits in excess of statutory bidding thresholds and could make purchases without obtaining competition as required.¹ Although the Director established credit limits for each card, he did not establish dollar limits for individual purchases, set daily limits or block certain types of vendors as required by the policy. As a result, cardholders can make purchases of any amount within their overall established credit limit from any vendor they choose, and the Town has little control over the volume and type of credit card purchases being made by employees.

Although the credit card policy states that employees must sign the policy to indicate that they were provided with and understand it before being issued a card, cardholders were not required to sign this acknowledgement. The Director told us that he did not typically request written acknowledgement from employees because he did not realize it was required by the policy.

The credit card policy also requires cardholders to document all credit card purchases on a purchasing log, which should include purchase dates, vendor names, purchase amounts and a description of the purchases. However, not all cardholders attached the required purchasing log to their credit card statements when submitting their receipts to the accounting department. Those who submitted logs did not always complete them with all required information, such as a description of the purchases made.

The Director and numerous department heads told us that employees are encouraged to use credit cards for virtually all purchases. Credit card purchases averaged \$184,000 per month and totaled more than \$3.8 million during the period January 2015 through September 2016.²

We reviewed credit card statements and supporting documentation for 1,135 credit card purchases totaling more than \$607,000 made by five Town departments for a three-month period.³ We found discrepancies with 536 purchases (47 percent) totaling approximately \$113,900 (19 percent), as follows:

- For 393 purchases totaling \$81,500 (13 percent), employees did not obtain the proper number of quotes as required by

¹ General Municipal Law requires that purchase contracts involving an expenditure of more than \$20,000 be competitively bid.

² During our testing period, September 2016 was the last month statements were available.

³ Please refer to Appendix B for further information on our sample selection.

the procurement policy. For example, Town officials did not obtain quotes for automotive parts purchased totaling \$33,000 in 2015 and \$12,500 in 2016. If the Town had purchased the parts using applicable State bid contracts, it could have saved more than \$3,200 on nearly \$8,700 (38 percent) of these purchases. Because Town officials did not ensure that employees complied with the procurement policy, the Town cannot be assured that they are paying the best price for these auto parts.

- For 89 purchases totaling \$16,700 (3 percent), employees did not submit appropriate documentation for credit card purchases. For some of these purchases,⁴ employees provided receipts and sufficient descriptions on the purchasing logs, including the purpose and nature of the purchases. However, the receipts were not always itemized as required by the credit card policy. Without itemized receipts and a completed purchasing log, Town officials may not be able to determine what was purchased or whether purchases were valid Town expenditures.
- We identified 54 transactions totaling \$15,600 (3 percent) made on three credit cards that were issued to two former employees and the former Town Clerk (Clerk). These purchases were made after the individuals had separated from Town service, and the cards were not canceled until two to four months after the individuals' dates of separation. We found that all of these purchases appeared to be for proper Town expenditures and were not made by the individuals after they had separated from Town employment. The purchases consisted of recurring payments initiated by the employees when they were still employed by the Town or were made by the newly elected Clerk using the former Clerk's card.⁵ However, because the Director did not immediately cancel these credit cards when the individuals separated from Town service, the Town had an increased risk that the cards could have been used for unauthorized or inappropriate purchases.

We found that only one department head consistently reviewed and approved employees' credit card statements. The statements and purchase orders for the other four departments were not signed by

⁴ These purchases included food, rentals, party supplies and information technology equipment.

⁵ The purchases made with the former Clerk's card were for office supplies, water cooler charges and required public notices and advertisements. The newly elected Clerk had not yet received a Town credit card, and the vendors had the former Clerk's card number on file.

supervisors to indicate that they were reviewed or approved. Also, the statements and purchase orders were not signed, or otherwise notated, to indicate that goods and services were received. Furthermore, department heads were allowed to review and approve their own charges without any evidence of review or approval by another party.

Ultimately, it is the Board's responsibility to ensure credit cards are used appropriately and in compliance with Board policies. Had the Board conducted a deliberate and thorough audit of credit card bills and reviewed charges prior to payment, these exceptions may not have occurred.

While the Board minutes indicated that vouchers and warrants (i.e., abstracts of audited claims) were submitted to and approved by the Board, the minutes do not contain any evidence to show that the Board audited credit card purchases. Several Board members told us that they reviewed the electronic disbursement list provided by the accounting department but did not review the actual bills, claims or invoices. One Board member stated that she reviewed the actual bills and associated supporting documentation but that not all Board members performed such a review. None of these reviews resulted in enforcement of Board policies with respect to credit card purchases.

In addition, credit card payments are automatically deducted from the Town's bank account, instead of being made by check. The Town's accountant transfers the credit card monthly balance, indicated on the master credit card statement, into the Town's clearing bank account. The credit card company then automatically pulls the payment from the account without any review or approval provided by Town officials. Because the transfers to the clearing account and withdrawals by the credit card company were made before the Board audited the purchases, the Board did not review payments before they were made.

Because credit card use could increase the potential for unauthorized purchases, it is essential for the Board to establish adequate policies and monitor and enforce compliance. Without a comprehensive and enforced policy, the Town has limited control over the use of its credit cards and could potentially pay for unauthorized or excessive purchases and have difficulty recovering unauthorized or questionable charges.

Recommendations

The Director should:

1. Review credit limits and the assignment of credit cards and establish daily credit limits and purchase restrictions as required by the credit card policy.

2. Ensure that all cardholders sign an acknowledgement of receipt and understanding of the credit card policy.
3. Ensure that cardholders complete purchasing logs and submit them with credit card statements and itemized receipts for all purchases, in accordance with the policy.
4. Ensure that credit cards are canceled immediately when an employee or official separates from Town service.

The Board should:

5. Review the credit card policy and update it to specifically identify authorized users, establish reasonable daily and individual purchase limits and set restrictions on types of purchases and vendors.
6. Monitor credit card use to ensure compliance with policies and ensure that the staff obtains required quotes for purchases exceeding dollar thresholds as stated in the procurement policy.
7. Ensure that department heads and supervisors review and approve employees' credit card statements and sign statements or purchase orders to indicate when goods and services are received.
8. Ensure that the Director or other Town officials review and approve credit card purchases of department heads before they are submitted to the Board for audit.
9. Perform a thorough and deliberate audit of credit card bills and charges prior to payment.
10. Ensure that credit card balances are paid by check or by electronic funds transfer only after audit and appropriate approval.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.



Town of Cheektowaga

Cheektowaga Town Hall – Suite 201
3301 Broadway Street
Cheektowaga, NY 14227

Hon. Diane Benczkowski
SUPERVISOR

Office Phone: (716) 686-3465
Fax: (716) 686-3551
Email: supervisorsoffice@tocny.org

March 24, 2017

Office of the State Comptroller
Attn: Jeffrey D. Mazula
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula:

The Town of Cheektowaga is in receipt of your report of examination (2017M-018) regarding the Town of Cheektowaga Credit Card Purchases for the period January 1, 2015 through December 14, 2016. After review of the report and our exit meeting on March 9, 2017, we understand the procedures that you completed and the recommendations that you made related to this sample of credit card purchases that you examined.

We appreciate your observations and recommendations and intend on implementing as many of your recommendations and controls that we are able to implement within the limits of our current staffing structure.

Thank you for your efforts.

Very truly yours,

Timothy J. Meyers
Deputy Town Supervisor



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed Board policies and procedures and interviewed Town officials to gain an understanding of processes and procedures in place pertaining to credit card use and distribution.
- We reviewed Board minutes and interviewed Board members to determine whether the Board performed a claims audit and reviewed and approved credit card activity.
- We compared the Town's list of credit cards to the master agreement from the credit card company and documented total purchases for each cardholder during our audit period.
- We selected a judgmental sample based on the dollar amount and volume of credit card activity. Our sample included all cards used by five Town departments that made the most credit card purchases. Our sample included the following departments: accounting, central garage, information technology, police and youth and recreation. We expanded our sample to review the activity on the cards of three additional individuals who made purchases that we perceived to be unusual or high-risk. We also expanded our review of these three cards to extend an additional seven months to include purchases that were made on the cards after the individuals had separated from Town service.
- We reviewed all purchases made by the five departments in our sample during the three months with the highest amount of purchases: August 2015, December 2015 and January 2016.
- We reviewed credit card statement packets for all credit cards in our sample. These packets included cardholders' purchase logs, receipts and invoices. We reviewed invoices and receipts to determine whether the purchases appeared to be proper and were properly approved and whether staff complied with proper bidding or quoting procedures, if necessary.

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 C

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