



Town of Grafton

Internal Controls Over Claims Auditing

Report of Examination

Period Covered:

January 1, 2011 — October 31, 2012

2013M-133



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2013

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 Grafton, entitled Internal Controls Over Claims Auditing. 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 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 Grafton (Town) is located in Rensselaer County. The Town has 2130 residents and provides various services including road maintenance, snow removal, refuse and garbage services, and general government support. The Town's budgeted expenditures for the 2013 fiscal year totaled approximately \$1.1 million and were funded primarily by real property taxes, sales tax, and State aid.

An elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Council members, governs the Town. The Supervisor serves as the Town's chief executive officer and chief fiscal officer. The Board is responsible for the general management and oversight of the Town's fiscal matters, including auditing claims.

Objective

The objective of our audit was to review the internal controls over the Board's claims auditing process. Our audit addressed the following related question:

- Did the Town Board properly audit claims in a timely manner to ensure that payments were accurate, valid, and for legitimate Town expenditures?

Scope and Methodology

We examined internal controls over the Board's claims auditing process for the period January 1, 2011, through October 31, 2012. We expanded our scope back to January 1, 2009, and forward to December 31, 2012, to review certain Board-approved claims.

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.

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 agreed with our findings and recommendations and indicated they plan to initiate 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 the 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.

Claims Auditing

The Board is responsible for auditing and approving claims and establishing internal controls over the claims auditing process. The claims auditing process should be deliberate and thorough, ensure that each claim contains sufficient supporting documentation to verify compliance with Board-adopted policies and statutory requirements, and ensure that the amounts claimed represent proper Town expenditures. Additionally, the Board should perform its audit in a timely manner to ensure that payments to vendors are made within a reasonable time period.

The Board did not ensure that detailed claims audit procedures were in place to enable it to perform a proper and thorough audit in a timely manner. As a result, claims totaling more than \$11,200 were paid more than 90 days after the invoice date,¹ and claims totaling more than \$1,400 were paid for a service contract which was expired.

Town officials expressed concerns to us about the Board's claims audit process. These concerns focused mainly on practices resulting in delayed payments to vendors for goods and services provided to the Town. Officials informed us that, in some instances, several monthly Board meetings were held where no claims were audited and approved for payment. We therefore reviewed 67 claims totaling approximately \$56,000 that officials asserted were not paid in a timely manner. Our review of these claims paid during the first few months of 2012 showed that only 13 of them (19 percent) were paid within 30 days of the invoice date. Further:

- Forty-three claims totaling more than \$32,000 were paid 30 to 90 days after the invoice date.
- Eleven claims totaling more than \$11,200 were paid more than 90 days after the invoice date, including one claim totaling more than \$3,900 that was paid from an invoice that was dated October 2009.

One Board member informed us that the Board's audit of claims was delayed because they needed to confirm that certain claims were legitimate and valid Town expenditures. However, the Board approved cell phone claims for a service contract that was expired, which indicated that the Board's audit of these claims was inadequate. We reviewed the cell phone service contract payments and found that

¹ During our review we did not identify any significant late fees or missed vendor discounts.

Town officials made 38 payments totaling approximately \$1,400 since the contract expired in January 2009. Further, officials were unaware this cell phone was no longer in service for Town operations.

Because of the control weaknesses, we reviewed an additional 30 claims totaling approximately \$22,800 that were paid from October through December 2012. Our review revealed that these claims were paid timely (within 30 days of the invoice date) and contained adequate supporting documentation.

Informal procedures were established and implemented in November 2012 which helped to improve the Town's claims auditing process. For example, claims were made available for the Board's review approximately one-week prior to the scheduled Board meeting. These procedures allowed the Board members adequate time to review claims and to ask any potential clarifying questions. While we commend the Board for their efforts to improve their claims auditing process, it should continue to ensure that all claims are deliberately and thoroughly reviewed in a timely manner before approving them for payment to decrease the risk that Town officials could pay claims that are not for valid purposes, pay for goods or services that were not actually received, lose potential early payment discounts, or incur additional fees for late payments.

Recommendations

1. The Board should adopt a policy to compliment the procedures over their claims auditing process, to ensure that deliberate, thorough and timely audits are conducted, that each claim approved is a legitimate Town expenditure, and that vendor payments are made in a timely manner.
2. The Board should seek to recoup funds paid to the vendor for the services that were not provided.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF GRAFTON

Established in 1807

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8/16/2013

Response to Preliminary Audit 2013M-133

The Town of Grafton is in agreement with the findings of the Comptroller's preliminary draft report. The following is the Corrective Action Plan the town will follow to ensure the recommendations of the Comptroller are met.

The town will adopt the following policy in response to Recommendation #1:

Town of Grafton Claims Auditing Policy and Procedures

Effective September 9, 2013

1. General Policies

The Town of Grafton is committed to ensure accurate payment of claims and services timely for legitimate Town expenditures. The Town of Grafton Town Board is responsible for assuring that payments made are valid, accurate, and submitted for remittance in a timely manner.

1.1 Definitions

Auditing Board- For the purpose of this policy the term "Auditing Board" shall mean and refer to the elected officials of the Town of Grafton Town Board.

Billing Statements- For the purpose of this policy the term "billing statement" shall refer to the list of vendor charges or services provided to the Town of Grafton.

Claims- For the purpose of this policy the term "claims" shall mean and refer to proper town charges or expenditures submitted for payment against the Town of Grafton.

Itemized Voucher(s) - For the purpose of this policy the term "itemized voucher(s)" shall mean and refer to the accompanying form prescribed by the Town Board.

1.2 Training

- The **Supervisor's Confidential Secretary or Town Clerk** will ensure Claims Auditing training for newly elected Public Officials.

1.3 Policy review and updating

- **Town Supervisor and Town Clerk** will review the Claims Auditing Policy periodically, and in accordance with Town Law.

1.4 Bill Processing

- The Supervisor's Confidential Secretary is responsible for preparing and categorizing vendor claims and billing statements received for remittance.
- The Supervisor's Confidential Secretary shall scan all claims and/or billing statements in to the Town of Grafton computer for payment tracking. Claims and billing statements shall be cataloged according to the appropriate department.
- The Supervisor's Confidential Secretary shall prepare an itemized claims voucher statement complete with a department head declaration signature line.
- The itemized claims voucher will be attached to the claim/billing statement and sent to the appropriate department head for approval.

1.5 Department Head Review

- The Supervisor's Confidential Secretary shall send the itemized claim(s) voucher with the attached claim/billing statement to the appropriate department head.
- Each department head manager shall review the origin of claim noting if the claim or service(s) were actually rendered or supplies or equipment actually received. The department head shall acknowledge payment of the claim, by signing the declaration signature line.
- It recommended that approved claims be returned to the Supervisor's Confidential Secretary within 10-days or before the last day of the month, whichever comes first.
- The Supervisor's Confidential Secretary shall forward the approved vouchers to the Town Clerk for numbering.

1.6 Audit of Claims

- The Town Clerk shall prepare submitted "claims" for inspection and audit by numbering each voucher and fund appropriation in accordance with the statutory duties of the town clerk.
- The Town Clerk shall make available numbered vouchers for inspection weekly as submitted by the department head(s). The Auditing Board is urged to review and sign prepared vouchers weekly. The Auditing Board is required to audit all numbered claim(s) by the Town Clerk within 30-days.

- The Auditing Board shall review each submitted voucher for completion, noting the department head or claimant signature authorizing delivery of claim/services, mathematical accuracy or other inconsistencies related to payment.
- The Auditing Board may require the justness and accuracy of a claim by the department head or vendor under oath and may subpoena evidence regarding the claim.
- When a bill contains a "net" 30-days or "gross" amount after a specified date. The Town Board may consider authorizing advanced payment within 30-days as established at the Annual Organizational meeting held in January.
- The Town Clerk or Town Bookkeeper shall prepare an abstract of audited claims, listing for each the number, name of claimant, chargeable amount, fund and appropriation accounts.
- A summary of expenses charged to a specific fund shall be noted in the Town Board Meeting minutes.

1.7 Voucher Payment

- Voucher(s) shall be approved for payment by resolution at the Town Board meeting following the audit process.

Response to recommendation #2;

The Grafton town Board will seek to recoup the funds inadvertently paid to a phone service vendor for services which were not provided from 2009 to 2012.

Francis M. Higgins
Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During our initial assessment we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Town policies and procedures manuals, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those areas most at risk. We determined that risk existed within the Board's claims auditing process and therefore, we examined the internal controls over claims auditing for the period January 1, 2011, through October 31, 2012.

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

- We interviewed Town officials to gain an understanding of the claims auditing process.
- We obtained and reviewed Board procedures pertaining to claims processing.
- We reviewed the Board meeting minutes.
- We reviewed 67 claims totaling approximately \$56,000 from a list provided by Town officials to determine if they were paid in a timely manner.
- We reviewed a sample of 30 claims² paid from October through December 2012 to determine if they were paid in a timely manner.

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.

² We selected the first 10 claims paid in each month.

APPENDIX C

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