



Town of Boonville

Claims Auditing and Conflict of Interest

Report of Examination

Period Covered:

January 1, 2013 — June 30, 2014

2014M-373



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2015

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 Boonville, entitled Claims Auditing and Conflict of Interest. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Boonville (Town) is located in Oneida County and has a population of approximately 4,600 residents. The Town is governed by an elected Town Board (Board), which consists of four members and the Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's finances.

The Town provides various services to its residents including maintaining and improving Town roads, and general government support. The Town's budgeted expenditures for 2014 were approximately \$1.4 million for the general and highway funds, funded primarily by sales tax, real property taxes and State aid.

Scope and Objectives

The objectives of our audit were to review the claims audit process and to determine if there were any conflicts of interest for the period January 1, 2013 through June 30, 2014. Our audit addressed the following related questions:

- Did the Board conduct an effective audit of claims prior to payment?
- Did any Town officials have prohibited interests in contracts with the Town?

Audit Results

The Board has not established an effective claims audit process. We examined 99 general fund and highway fund claims totaling \$423,485 to determine whether they were properly authorized and approved, contained adequate supporting documentation, were in accordance with Town policies and were for proper Town purposes. The Board approved 51 claims¹ totaling \$103,341 that had deficiencies. We question how the Board approved these claims for payment without the necessary documentation. The Board's claims audit process increases the risk that the goods and services approved for payment were not actually received, the lowest price or best value for purchases was not obtained, or purchases were not for proper Town purposes.

We found a Board member has a prohibited interest in Town contracts. The Town made purchases from the Board member's business from January through December 2013 totaling \$2,393, and from January through June 2014 totaling \$1,057. When Town officers, in their private capacities, conduct business

¹ Some claims had more than one deficiency.

with the Town for which they serve, the public may question the appropriateness of the transactions. Such transactions may create an actual conflict of interest or the appearance of impropriety.

Comments of Local Officials

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 findings and recommendations and indicated they plan to initiate corrective action.

Introduction

Background

The Town of Boonville (Town) is located in Oneida County and has a population of approximately 4,600 residents. The Town is governed by an elected five-member Town Board (Board) which comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing Town operations, finances and overall management. The Supervisor serves as 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.

The Town provides various services to its residents including maintaining and improving Town roads and general government support. The Town's budgeted expenditures for 2014 were approximately \$1.4 million for the general and highway funds, funded primarily by sales tax, real property taxes and State aid.

Objectives

The objectives of our audit were to review the claims audit process and to determine if there were any conflicts of interest. Our audit addressed the following related questions:

- Did the Board conduct an effective audit of claims prior to payment?
- Did any Town officials have prohibited interests in contracts with the Town?

Scope and Methodology

We reviewed the Board's oversight of its claims audit process and payments to Town officials for the period January 1, 2013 through June 30, 2014.

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 is 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 generally 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

With few exceptions, New York State Town Law (Town Law) requires the Board to audit and approve all claims before the Supervisor can disburse payments.² An effective claims audit should be deliberate and thorough, ensure that each claim contains sufficient supporting documentation to verify compliance with Board-adopted policies and statutory requirements, ensure that all claims are for goods or services that were actually received by or rendered to the Town and ensure that the amounts claimed represent proper Town expenditures.

At the monthly Board meetings, the Board is presented with preliminary warrants³ and associated claims. Board members told us they review each claim packet by looking at item descriptions, prices and dates of purchases. The entire Board votes to approve the claims listed on the preliminary warrants, and the Clerk documents the Board's approval of the claims in the Board minutes. The Clerk signs the preliminary warrant directing the Supervisor to pay the approved claims and it becomes the final warrant.⁴ The Supervisor subsequently issues payments for the approved claims.

To determine if the Board conducted an effective audit of claims, we examined 99 general fund and highway fund claims⁵ totaling \$423,485 to determine whether they were properly authorized and approved, contained adequate supporting documentation, were in accordance with Town policies, were for proper Town purposes and were audited and approved prior to payment as required by law. We also determined whether the payees and the amount paid on the canceled checks agreed with the claims and final warrants. Our testing disclosed 51 claims totaling \$103,341 had one or more deficiency. We question how the Board approved these claims for payment without necessary documentation.

- Nineteen claims totaling \$43,645 were paid from photocopies of bills instead of original invoices. For example, two claims

² The Board may, by resolution, authorize payment in advance of audit of claims for public utility services, postage, freight and express charges. Such claims must be presented for audit at the next Board meeting.

³ The preliminary warrant lists the individual claims presented to the Board. The general fund and highway fund claims are listed on separate preliminary warrants.

⁴ If the Board decides not to approve a certain claim, that claim is crossed off the warrant and the warrant total is updated. The Clerk records the rejected claims and the Board's approval of the claims in the minutes.

⁵ See Appendix B, Audit Methodology and Standards, for our sample selection process.

for fuel purchases totaling \$15,750 were supported by copies of billing statements. When original invoices are not attached to the claim, the risk is increased that duplicate payments could be made based on photocopied bills.

- Nine claims totaling \$29,512 did not have any evidence that quotes were solicited as required by the Town’s procurement policy.⁶ For example, there was no indication that the required oral or written quotes were obtained for heating fuel, motor oil or the removal of a fuel tank.
- Seven claims totaling \$24,639 did not have a sufficient description of the items purchased. For example, one claim for insurance totaling \$20,755 did not show what type of insurance was being purchased. We requested additional information for these seven claims and found them to be for valid Town purchases.
- Twenty-nine claims totaling \$14,287 did not include the signature of the officer whose action gave rise to the claim, to confirm the accuracy and approval of the claim.⁷ Examples include claims for heating fuel, postage stamps and a Town official’s expenditure reimbursement.
- Four claims totaling \$14,250 were supported by written contracts which did not adequately specify the services the Town should receive in return for payment. For example, the Town entered into a \$6,500 contract with an organization to “help in the operation of” youth baseball programs, a \$5,000 contract with the Chamber of Commerce “to promote business (and) winter activities in the Town,” and two contracts totaling \$2,750 for services provided to senior citizens in the community. The vague language in these contracts makes it difficult to determine what specific services the contractors must provide to the Town and whether the value of those services is commensurate with the amount of money the Town is paying under the contracts. It also diminishes Town officials’ ability to monitor and evaluate the contractor’s performance because it is unclear what the contractor is

⁶ The Town’s procurement policy requires three written quotes for purchases between \$3,000 and \$10,000 and two oral quotes for purchases between \$1,000 and \$3,000. The policy also requires two written quotes for public works contracts between \$3,000 and \$35,000. The policy requires quotes to be filed with the documentation supporting the subsequent purchase.

⁷ Town Law Section 118 requires that claims be accompanied by a statement by the officer whose actions gave rise or origin to the claim that he or she approves the claims and that the services were actually rendered or the goods actually delivered.

expected to do in exchange for payment. In addition, although Town Law allows the expenditure of moneys for the purpose of youth recreation, publicizing the advantages of the town and programs for the aging, towns are prohibited from making gifts or loans to or in aid of private entities.⁸ Town payments to private entities not made pursuant to a contract in exchange for lawful, fair and adequate consideration could be considered a gift of public funds.

The deficiencies identified during our review of claims illustrate that the Board is not conducting an effective audit of claims prior to approving them. As a result, there is an increased risk that the Town could pay for goods and services that were not actually received, were not acquired at the lowest price or best value, or were not for proper Town purposes.

Recommendations

The Board should:

1. Ensure that deliberate and thorough audits are conducted and that each claim approved is properly supported by original invoices, follows Board-adopted policies, is sufficiently itemized and is approved by the officer whose action gave rise to the claim.
2. Ensure that written contracts adequately specify the goods or services to be received and that the Town receives fair and adequate consideration under each contract.

Town officials should:

3. Ensure that they are following the Town's purchasing policy regarding obtaining quotes and bids.

⁸ New York State Constitution, Article VIII, Section 1

Conflict of Interest

General Municipal Law (GML) limits the ability of municipal officers and employees to enter into contracts in which both their personal financial interests and their public powers and duties conflict. Unless a statutory exception applies, GML prohibits municipal officers and employees from having an “interest” in contracts with the municipality for which they serve when they also have the power or duty – either individually or as a board member – to negotiate, prepare, authorize or approve the contract; to authorize or approve payment under the contract; to audit bills or claims under the contract or to appoint an officer or employee with any of those powers or duties. For this purpose, a “contract” includes any claim, account, demand against or agreement with a municipality, express or implied.

Municipal officers and employees have an interest in a contract when they receive a direct or indirect monetary or material benefit as a result of a contract. Municipal officers and employees are also deemed to have an interest in the contracts of their spouse, minor children and dependents (except employment contracts with the municipality); a firm, partnership or association of which they are a member or employee and a corporation of which they are an officer, director or employee, or directly or indirectly own or control any stock. As a rule, interests in actual or proposed contracts on the part of a municipal officer or employee, or his or her spouse, must be publicly disclosed in writing to the municipal officer or employee’s immediate supervisor and to the governing board of the municipality and included in the official minutes of the Board proceedings.

We found a Board member has a prohibited interest in Town contracts. According to the Board member and Town documents, the Board member is the sole owner of an incorporated business from which the Town purchases materials and supplies including concrete mix, PVC piping and couplings. The Town made purchases from the Board member’s corporation from January through December 2013 totaling \$2,393, and from January through June 2014 totaling \$1,057.

Each purchase by the Town from the Board member’s corporation results in an “agreement” for the sale of goods at a certain price, and thus, a “contract” for purposes of GML. As the sole owner of the corporation, the Board member has an interest in each contract by virtue of being a 100 percent stockholder. As a member of the Board, this individual also has one or more powers or duties that can give rise to a prohibited interest, including the ability to authorize or approve the contracts, authorize or approve payments under the contracts, audit

bills or claims under the contracts or appoint someone to perform that function. Accordingly, because none of the statutory exceptions appear to apply in this instance, we believe the Board member had a prohibited interest in each of the contracts with his corporation.

When Town officers, in their private capacities, conduct business with the Town for which they serve, the public may question the appropriateness of the transactions. Such transactions may create an actual conflict of interest or the appearance of impropriety.

Recommendations

The Board should:

4. Ensure that all officials and employees are familiar with the requirements of GML as they relate to conflicts of interest.
5. Ensure that the Town does not enter into any contract in which a Town officer or employee has a prohibited interest.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF BOONVILLE

BOONVILLE, NEW YORK 13309

March 02, 2015

Syracuse Regional Office
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Syracuse, N Y. 13202-1428

Draft Audit Report (Response)
Town of Boonville
Claims Auditing and Conflict of Interest
Audit Report # 2014M-373

The Boonville town Board thanks you for your recommendations and expertise in the operation of Town Government. We will review our audit process, written contracts, purchase policy and Conflict of Interest Policy and advise you of what corrective action we plan to take in our CAP Report once we receive the final audit report.

Respectfully;

John Gaylord
Boonville Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objectives of our audit were to review the Town's claims audit process and determine if there were any conflicts of interest with Town officials for the period January 1, 2013 through June 30, 2014. To achieve our audit objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials to gain an understanding of the claims audit and approval process and reviewed Board meeting minutes and any related policies.
- We used a random number generator to select the test months of February 2013 and April 2013. We reviewed all 87 claims totaling \$193,139 that cleared the bank during February 2013 and April 2013. We tested claims to determine if they contained proper departmental approvals and sufficient supporting documentation, were for proper Town purposes, complied with Board-adopted policies and were approved by the Board prior to payment when required. We also examined the related canceled checks and warrants to ensure consistency with the claims.
- We judgmentally selected 12 claims paid during our audit period from warrants totaling approximately \$230,346 for examination. We selected these claims because they posed a higher risk of being inappropriate Town expenditures. Such payments included payments made to Town officials, unusual or unknown vendors, payments of high dollar amounts and payments for potentially questionable purchases. We tested claims to determine if they contained proper departmental approvals and sufficient supporting documentation, were for proper Town purposes, complied with Board-adopted policies and were approved by the Board prior to payment. We also examined the related canceled checks and warrants to ensure consistency with the claims.
- We examined procedures to identify and prevent potential conflicts of interest, and examined Board minutes for associated public disclosures of interest. We obtained representations from Board members and other Town officials that disclosed their outside employment and business interests, and those of their spouses, during the audit period.
- We reviewed warrants to identify payments made to Town officials' related employers, firms, corporations or associations for indications of potential conflicts of interest in Town contracts. We reviewed the claims to determine if they contained sufficient supporting documentation, were for proper Town purposes and were authorized and approved.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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