



Town of Lake Pleasant Credit Cards

Report of Examination

Period Covered:

January 1, 2015 — July 31, 2016

2016M-432



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 Lake Pleasant, entitled Credit Cards. 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 Lake Pleasant (Town) is located in Hamilton County and has a population of approximately 780. The Town is governed by an elected five-member Town Board (Board), which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records, and providing financial reports to the Board.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, cultural activities and general government support. The Town's budgeted appropriations for the 2016 fiscal year were approximately \$2.5 million, funded primarily with real property taxes.

Objective

The objective of our audit was to examine the Town's credit card purchases to determine whether the cards were used for appropriate purposes and in compliance with the Town's policies. Our audit addressed the following related question:

- Did the Board establish adequate internal controls over Town credit cards?

Scope and Methodology

We examined the Town's credit card purchases for the period January 1, 2015 through July 31, 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 have initiated, or indicated they planned 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 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 Town Board to make this plan available for public review in the Town Clerk's office.

Credit Cards

Because credit cards can be used almost as easily as cash, it is critical that Town officials establish effective policies and procedures governing the use of the cards. A sound credit card policy requires officials to implement effective credit card procedures before making cards available to employees. The policy should identify individuals authorized to open accounts and the approved credit card users, define credit limits, describe the types of purchases allowed and specify the prior approval and documentation required to support each purchase. Additionally, the number of credit cards should be limited to minimize the risks associated with unauthorized use of the cards and enhance the accountability over the cards. The policy also should address the methods to recover money in the event of improper card use and include procedures over card custody and use to ensure accountability and responsibility. Adequate credit card controls help ensure that card use is monitored, unnecessary costs (e.g., finance or late charges) are avoided and established purchasing procedures are followed.

Town officials did not establish policies and procedures over the use of the Town's credit cards. The Town had a total of 24 credit cards during our audit period with total credit limits exceeding \$101,000. The credit limits on the individual cards ranged from \$1,000 to \$20,000. Four of these credit cards had credit limits of \$10,000 or more. These large credit limits increase the risk of significant invalid purchases being made and going undetected. Even though Town officials review the credit card statements on a monthly basis, a non-Town purchase would have already occurred.

The Town paid 75 credit card claims totaling \$41,967 during the audit period. The number of credit cards and credit limits are excessive in comparison to the number of Town employees, which is 31 including elected officials and eight seasonal part-time employees. For example, the Highway Superintendent had a credit card with a limit of \$20,000. However, his monthly purchases ranged from \$2,000 to \$4,000, indicating that his credit limit could be lowered.

Nine officials and four employees had a total of 20 Town credit cards issued to them. The remaining four cards were issued in the name of the Town; one credit card is in a Board member's possession and the other three cards are kept in the Town Clerk's (Clerk's) office. The Clerk was responsible for opening and closing credit card accounts with the bank. However, the Clerk and other officials were able to open store credit card accounts without obtaining approval from the Board. Because the Board did not establish policies and procedures

over the Town's credit cards, officials and employees could open credit card accounts and make credit card purchases without prior approval.

We reviewed 23 credit card statements comprised of 116 purchases totaling \$30,935 paid during our audit period. We found 19 credit card purchases totaling \$1,696 were not supported with receipts or other supporting documentation. From our review of the credit card statements, the associated claims and our conversations with Town officials, we were able to determine certain information related to the purchases (e.g., vendor names, brief description of items purchased) and determine what some of the purchases were for (e.g., gas, food, books). We found that 16 of the 19 purchases, totaling \$1,443, were for appropriate Town business. For example, the Town purchased \$739 worth of books for the library and purchased office supplies totaling \$56. The remaining three purchases totaling \$254 were made for purposes that were not permissible by statute. These purchases included cups to give to individuals who donated money to the library (\$193), flowers for an employee retiring (\$35) and pizza for a retirement luncheon (\$26). Although we were able to identify what was purchased, without receipts or other supporting documents, the Board should not have approved payment for these 19 purchases.

Although we did not find any material discrepancies, the lack of written policies and procedures to govern the use of credit cards, the excessive number of cards and the lack of receipts to support all credit card purchases increase the risk of the cards not being adequately accounted for and the possibility that cards could be used for unauthorized purchases.

Recommendations

The Board should:

1. Adopt written credit card policies and procedures.
2. Limit the number of Town credit cards to a more reasonable number and reduce the credit limits to no more than \$5,000 per card.
3. Perform a thorough audit of claims to ensure that the use of credit cards were followed and that the claims packages include appropriate documentation of what was purchased, the Town's purpose and documentation that goods or services were received by the Town.
4. Ensure that all credit card charges are actual, necessary and supported by itemized receipts.

APPENDIX A
RESPONSE FROM TOWN OFFICIALS

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

Town of Lake Pleasant

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4/4/17

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To:

Dear

This letter is to answer the concerns referencing the 2016 Audit by Office of State Comptroller.

After meeting on Thursday, March 16th for the purpose of the Town of Lake Pleasant Exit Conference, the following will serve as our response and corrective action.

- 1) Question: Who is authorized to open credit card account. Answer: The Supervisor / Chief Financial Officer is the only one authorized to approve the opening of a credit card account for the Town of Lake Pleasant.
- 2) It was suggested by the Office of State Comptroller to limit the number of credit cards for the Town of Lake Pleasant to minimize risk. Response: The number of credit cards have been reduced from twenty-four (24) to four (4) with one store credit card. The card holders are: Supervisor, Town Clerk, Superintendent of Highway, and Library Director. The store credit card is required to receive tax exempt status when purchases ordered by the Highway Superintendent and picked up by highway personnel. The Library credit card is used for book purchases and other supplies when ordering on line, authorized by the Library Director only.

- 3) Credit Card Limits: The credit card limits have been established at three thousand dollars (\$3,000.00) except for the Highway Superintendent card to have a limit of five thousand dollars (\$5,000.00)
- 4) Credit Card Policy: On 4/3/17 the Town of Lake Pleasant approved a credit card policy (see attached).

Sincerely,

Daniel Wilt
Town of Lake Pleasant, Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed the Supervisor, Clerk, Highway Superintendent and the principal account clerk to determine if the Board had adopted a credit card policy.
- We reviewed all claims for credit card payments for the 2015 fiscal year and the period January 1, 2016 through July 31, 2016 to determine the total number and amount of payments made for credit card charges.
- We selected a judgmental sample of the 12 largest dollar amounts of credit card claims paid during 2015 to determine if the Board requires proper documentation for use of credit cards (receipts and other documentation). We also determined whether the credit card statements are reconciled to receipts prior to payment approval and whether purchases made with credit cards follow applicable laws, statutes, policies and procedures and are for legitimate Town purchases.
- We selected a judgmental sample of three disbursements to credit card companies based on the highest dollar value for the period January 1, 2016 through July 31, 2016 to determine if the Board requires proper documentation for use of the credit card (receipts and other documentation). We also determined whether the credit card statement is reconciled to receipts prior to payment approval, and that purchases made with credit cards follow applicable laws, statutes, policies and procedures and are for legitimate Town purchases.
- We reviewed all credit card payments for 2015 and the period January 1, 2016 through July 31, 2016 to determine whether the Town paid late fees or finance charges.

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.

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