



Village of Homer Purchasing and Credit Cards

Report of Examination

Period Covered:

March 1, 2015 — April 13, 2017

2017M-112



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

Dear Village 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 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 Village of Homer, entitled Purchasing and 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 Village of Homer (Village) is located in the Town of Homer in Cortland County. The Village has approximately 3,300 residents and provides various services, including road maintenance and snow removal, water distribution, sewage treatment, recreation and general government support. The Village's 2017-18 budgeted appropriations totaled approximately \$3.9 million, funded primarily by real property taxes, water and sewer fees and State aid.

The Village is governed by an elected Board of Trustees (Board), which comprises four Trustees and the Mayor. The Board is the legislative body responsible for the general management and control of financial operations, including the adoption and enforcement of policies and the review and approval of all Village expenditures. The Mayor¹ is the chief executive officer and is responsible for the day-to-day management under the Board's direction. The Board-appointed Clerk-Treasurer² is the chief fiscal officer and is responsible for disbursing Village money, maintaining accounting records and filing financial reports.

Objective

The objective of our audit was to assess controls over purchasing and credit cards. Our audit addressed the following related question:

- Did Village officials design and implement sufficient controls over purchases of at least \$800 and credit card purchases?

Scope and Methodology

We examined various documents regarding controls and procedures related to purchases over \$800, including the Village's procurement policy and claim packets. We also reviewed controls of purchases made using the Village's credit card for the period March 1, 2015 through April 13, 2017. We extended our scope back to 2006 to review versions of the Village's purchasing policy.

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

¹ The current Mayor took office on March 31, 2017, and the previous Mayor held the position for the duration of our audit period.

² There were two Clerk-Treasurers during our audit period, and a third (current) Clerk-Treasurer took office on May 15, 2017.

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 Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our 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 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 Clerk-Treasurer's office.

Purchasing and Credit Cards

General Municipal Law (GML) requires local governments to adopt written policies and procedures for procuring goods and services. The Board should adopt a written policy and establish procedures to provide reasonable assurance that purchases are prudent, economical and in compliance with laws and regulations. The policy can also include purchase order requirements to ensure that sufficient funds are available to pay for the goods and services and that purchases are properly authorized. Additionally, the Board should establish a credit card policy that specifies for what purpose the cards can be used and who is authorized to use them. Moreover, itemized receipts should be attached to claim packets³ when they are submitted for audit and approval.

The Board-adopted procurement policy meets all GML requirements and includes a provision that requires a purchase order be approved prior to making all purchases in excess of \$800 that are not subject to bidding requirements. However, the Board did not adopt a policy regarding the use of Village credit cards. In addition, purchase order requirements were not being enforced and credit card payments were made without adequate documentation.

Purchase Orders – The procurement policy requires purchase orders be prepared and signed by the department head requesting the purchase and approved by the Mayor and a Trustee, or by two Trustees,⁴ prior to the purchase. We reviewed a sample of 44 purchases totaling \$134,210⁵ and found that purchase orders were not approved prior to purchase for 34 (77 percent) totaling \$96,877, including purchases of tires and various equipment for the water and sewer departments. Board members and certain department heads told us that they were unaware of this requirement in the procurement policy, although the requirement has been in the policy since at least 2006.

Credit Cards – The Village has one credit card account with two credit cards. The previous Mayor and previous Clerk-Treasurer each controlled a card. We reviewed all 18 credit card claim packets, which represented 63 card charges totaling \$19,271. We found that 48

³ The claim packets should include a combination of original invoices, receiving slips, other relevant documentation and the standard claim form (as a cover sheet).

⁴ If the purchase order is not approved by the Mayor, one of the two Trustees approving it must be the chair of the committee overseeing the department requesting the purchase.

⁵ Appendix B, Audit Methodology and Standards, includes details on our sample selection.

charges (76 percent) totaling \$15,122 did not contain vendor invoices or receipts, and 11 claim packets (61 percent) totaling \$8,647 were not approved by the required number of Board members.⁶ Furthermore, without vendor invoices or receipts, we were unable to adequately determine whether the 48 purchases (i.e., purchases from a discount department store, local eateries and hotels) were for legitimate Village purposes. These discrepancies occurred because the Board has not established a credit card policy and Village officials did not realize the importance of such a policy.

Without appropriate controls over purchases and credit card use, the Village is at a greater risk that errors and/or irregularities could occur and remain undetected. Although we did not identify any unusual vendors or payments, without vendor receipts or invoices, there is an increased risk that fraudulent expenditures could have been made. We referred this matter to our Division of Investigations for further review.

Recommendations

The Board should:

1. Distribute the procurement policy to all department heads and applicable staff to ensure they are aware of its requirements.
2. Adopt a credit card policy to establish controls and guidelines over the use of credit cards.⁷
3. Require vendor invoices and/or receipts be attached to all claim packets, including credit card claims.
4. Audit and approve all claim packets prior to payment.

⁶ The Board-established procedures require at least three Board members to audit and approve all claim packets prior to payment.

⁷ For guidance, see <http://www.osc.state.ny.us/localgov/costsavings/creditcard.htm>

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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August 23, 2017

Office of the State Comptroller
Division of Local Government
And School Accountability

To Whom It May Concern,

This letter represents the Village of Homer's (Village) response and corrective action plan (CAP) to a Draft Audit Report, entitled *Purchasing and Credit Cards*, submitted by you, the Office of the State Comptroller, Division of Local Government and School Accountability. What follows is a detailed CAP, pursuant to Section 35 of the General Municipal Law, outlining all Village action relevant to the recommendations contained in your report.

As stated in the introduction to your report, the Village has had a recent executive change. The current Mayor took office on March 31, 2017. Retention of Appointed Village officials has seen much tumult since the beginning of the year as well. To quell this disarray and provide stable oversight to all Village endeavors, the Mayor and Board of Trustees have resolved, as of August 9, 2017, to split the Clerk-Treasurer into two positions, a Village Clerk and a Village Treasurer, with a Village Deputy Clerk-Treasurer assisting both. This new organization structure will be keenly designed to manage the affairs of the Village with best practices and thoughtful processes, in an assured manner.

Purchasing

The Village has had an adopted Procurement Policy since April 5, 1995 and has made subsequent amendments, deemed prudent and necessary, that outline specific parameters for the purchasing of goods and services. Noted in your office's report, while the Village had this policy language, the thrust and spirit of it had not been properly instilled within the day-to-day purchasing activities of the Village.

Beginning with the new Mayor and since the new organization structure of the Village office has been in place, strict adherence to purchasing requirements has been enforced. Furthermore, the Village intends:

- Establish mandatory and recurrent training procedures for all Department Heads on Village Procurement Policy and the expectations for all purchasing that lie therein
- If the excess cost amount is met, a Purchase Order will be issued with a signature from the relevant Department Head and include either the Mayor's and one Trustee's

approving signatures or the approving signatures of two Trustees, one of whom will be the chair of the committee overseeing that department.

- All claim packets will be coupled with corresponding vendor invoices/receipts for Board audit and approval.

Credit Cards

Succinctly stated the Village had no codified Credit Card procedure in place at the time of your office's audit of Village policies and documentation. If one could glean any positive outcome from the recent upheaval in Clerk-Treasurer tenure within the Village office, a former Clerk-Treasurer found it prudent to terminate the one lone credit card account that the Village had active.

Policies and procedures outlined by the New York State Office of the Comptroller will be vital in crafting a significant and useful Credit Card Policy for the Village:

<http://www.osc.state.ny.us/localgov/costsavings/creditcard.htm>

Cogent language will be codified appropriately. Moving forward the Village will:

- Craft and adopt a Credit Card Policy that establishes controls and guidelines for all credit card uses.
- All claim packets relevant to credit card usage will be coupled with corresponding receipts detailing expenditures and will be submitted for Board audit and approval.

The Village thanks and appreciates the time and effort made by the Office of the State Comptroller Division of Local Government and School Accountability in this manner.

Sincerely,

Darren "Hal" McCabe
Mayor
Village of Homer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Village officials and employees and reviewed the Board-adopted procurement policy to gain an understanding of the policies and procedures regarding purchases and credit card use.
- We obtained a report of all purchases in excess of \$800 and reviewed a sample of 44 claim packets (from a population of 275 totaling \$960,888), judgmentally selected without any known bias, to determine whether purchase orders were approved prior to purchase and were for legitimate Village purposes.
- We reviewed all credit card claim packets, which represented a total of 63 purchases, to determine whether the required documentation (i.e., vendor invoices or receipts) were included with the credit card statement, claim packets were approved by the Board and purchases were for legitimate Village purposes.

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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