

Village of Hagaman

Claims Auditing

JUNE 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Hagaman

Audit Objective

Determine whether the Village of Hagaman (Village) Board of Trustees (Board) ensured claims were properly audited and approved before payment.

Key Findings

Claims were not properly audited and approved before payment. The Board did not:

- Date their signatures on claims upon review and approval.
- Ensure claims had department head approval.
- Pass resolutions approving claims.

Key Recommendations

- Clerk-Treasurer should discontinue adding claims to the monthly abstract and paying such claims without Board approval.
- Ensure no claim is paid before audit and approval of the Board other than claims approved by resolution to be paid prior to audit.
- Ensure a resolution is passed approving the number of claims on the abstract, amount of the abstract and the abstract number.

Village officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

Background

The Village is located in the Town of Amsterdam in Montgomery County and is governed by an elected five-member Board, composed of the Mayor and four Trustees.

The Board is responsible for the general management and oversight of Village operations, including auditing and approving claims for payment. The Mayor, as the Village's chief executive officer, is responsible for its day-to-day management.

The appointed Clerk-Treasurer is the chief fiscal officer and is responsible for the Village's day-to-day financial activities, which includes processing disbursements.

Quick Facts

| | |
|---|-------------|
| 2020-21 Appropriations | \$1,118,103 |
| Amount of Claims Paid During Audit Period | \$1,097,784 |
| Amount of Claims Reviewed | \$422,558 |

Audit Period

June 1, 2020 – August 31, 2021

Claims Auditing

What Are Effective Claims Auditing Procedures?

Village boards are required to audit all claims against a village before approving them for payment. Auditing and approving claims is an important part of a board's responsibility to oversee village expenditures. It is also an important internal control because it segregates two key functions: management's purchase of goods and services and the authorization of payments for those goods and services.

It is important for village boards to conduct a deliberate and thorough audit of all claims, including charges made on village credit cards, before it disburses funds. A board may, by resolution, authorize payment for public utility services, postage, freight and express charges in advance of audit. The public utility services include electric, gas, water, sewer and telephone services. The claims for such advance payments must be presented at the next regular board meeting for audit.

To properly approve claims for payment, a board must ensure that each claim contains sufficient supporting documentation, including contracts, itemized receipts or invoices to determine whether the amounts claimed represent valid village expenditures and comply with board-adopted policies. All required approvals including departmental approvals and authorizations should be documented or attached to the claim form. After the board has completed its audit, and when the same individual serves as both clerk-treasurer or deputy clerk and deputy treasurer, the mayor is required to sign the abstract of audited claims, directing the clerk-treasurer to pay the claims approved by the board. The minutes of board meetings should reflect what claims have been audited and whether they were allowed or disallowed, in whole or in part. The claims should be numbered consecutively, and the board minutes should indicate the beginning and ending claims numbers approved for payment, and the total amounts approved by fund.

It is important for village boards to conduct a deliberate and thorough audit of all claims. ...

Claims Audit Procedures Are Not Adequate

Prior to the monthly Board meeting, the Clerk-Treasurer prepares the claims and an abstract of unaudited claims for the Board's audit and approval. Although the Board members review and sign claims, indicating their approval to pay the claims, the Board does not enter the date of its review and approval on the claims or document in the Board minutes the claims that were audited and approved for payment. Further, the Mayor does not sign and date the abstract, certifying that the claims were audited and approved by the Board, and directing the Clerk-Treasurer to pay the claims. At the end of the month, after the checks have been printed, the Clerk-Treasurer prints a final abstract of audited claims and files it with the monthly claims.

We reviewed 50 claims totaling \$422,558 paid during our audit period to determine whether the corresponding claims for these check disbursements were

supported by adequate documentation, included department approval, were for appropriate purposes, mathematically accurate and audited and approved before payment. All claims reviewed were supported by adequate documentation and for appropriate purposes and mathematically accurate. However, all claims lacked departmental approval and 18 of the check disbursements (36 percent) totaling \$9,058 were signed, dated and cleared the Village's bank account prior to the monthly Board meeting when the Board's claim audit was performed. These disbursements were for various purposes and not allowed to be paid in advance of audit including payments for credit cards, auto parts and building repairs.

Further, while 12 of these 18 disbursements were audited by the Board after payment, the remaining six claims totaling \$6,313 had insufficient evidence of Board audit and approval. The six claims were not signed by any Board member. In addition, a \$167 claim was paid but never audited. This occurred because the Clerk-Treasurer processed and paid claims received after the Board's audit that were due before the end of the month such as credit card charges and store accounts. The Clerk-Treasurer added these claims to the abstract of audited claims that she printed at the end of each month. However, she did not always provide these claims to the Board for audit.

Claims were not approved by a department head because they were never provided to department heads for approval. In addition, when we asked multiple Board members why department head approvals were not obtained, they indicated they were unaware of the requirement for the department heads to sign the claims.

When check disbursements are made before Board audit and approval and when claims are paid in advance and are not provided to the Board for audit and approval, there is an increased risk that erroneous and improper claims could be paid.

What Do We Recommend?

The Board should:

1. Include the date when signing claims it has reviewed and approved.
2. Ensure no claim is paid before the Board's audit and approval other than claims approved by resolution to be paid prior to audit.
3. Ensure claims have department head approval prior to audit.
4. Ensure the Mayor signs and dates the abstract of claims after the Board completes their audit.

...[A]ll claims lacked departmental approval and 18 of the check disbursements (36 percent) totaling \$9,058 were signed, dated and cleared the Village's bank account prior to the monthly Board meeting. ...

-
5. Ensure a resolution is passed approving the number of claims on the abstract, amount of the abstract and abstract number.

The Clerk-Treasurer should:

6. Discontinue the practice of adding claims to the abstract after the Board has reviewed and approved the abstract. Any claims not authorized to be paid in advance of audit that are received after the Board has approved the abstract should be included on the following month's abstract.
7. Verify the Board has audited and approved the claims listed on the abstract of claims, and that Mayor has signed and dated the abstract of claims prior to printing and signing the checks.
8. Ensure all claims, other than those allowed to be paid in advance of audit, are audited and approved by the Board before payment.
9. Ensure that the department heads approve the claims prior to presenting them to the Board for audit.
10. Retain the abstract of claims signed and dated by the Mayor.

Appendix A: Response From Village Officials

VILLAGE of HAGAMAN

16 William Street, PO Box 283
Hagaman, New York 12086

May 15th. 2022

NYS Office of the Comptroller
Division of Local Gov't and School Accountability
One Broad Street Plaza
Glens Falls, New York 12801

Re: Audit #2022M-11 (Audit period 06/01/2020 - 08/31/2021)
Response to Draft Audit Report
Corrective Action Plan

The Village of Hagaman agrees with all findings and recommendations included in the draft audit report in regard to the claims audit process.

With that being said and an effective date of 01/01/2022 the following corrective action has been implemented.

1. The Mayor has directed the Clerk/Treasurer to discontinue adding claims to the monthly abstract and paying such claims without board approval.
2. The Village of Hagaman has added to the monthly meeting agenda resolutions approving claims for both the sewer and general funds.
3. The Mayor will act as department head and sign claims as required.
4. The Village Board has been made aware of the need for dating the claims when reviewed and will be reminded at each board meeting.
5. The Mayor will sign and date the abstract of claims after the Board completes their audit.

In closing , The Village of Hagaman does appreciate the help and guidance provided by the NYS Comptroller's Office. The professionalism and attention to detail is impressive.

Sincerely,
Robert T Krom, Mayor

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and reviewed Board meeting minutes to gain an understanding of the claims audit and approval process.
- We determined the total number of non-payroll claims that were paid by the Village during our audit scope period of June 1, 2020 through August 31, 2021. We judgmentally selected 50 check disbursements totaling \$422,558 and reviewed the corresponding claims to determine whether the claims were audited and approved by the Board before payment, supported by adequate invoices and documentation, goods or services were received, were for legitimate purposes, mathematically accurate and in accordance with policies. Claims were judgmentally selected by including payments for the following in the sample: supplies, large and small dollar claims, credit card payments, claims for the general and sewer funds and personal service payments.
- We reviewed each selected claim to determine if the claims: processing steps were consistent with the approval process and duties were adequately segregated, had adequate documentation (itemized receipt/invoice), for goods and services were verified before payment and for a Village purpose, were mathematically accurate and paid timely, included proper department head approval and Board approval with dates, had approval from at least three Board members, were audited before payment, agreed to the abstract, had a resolution approving the claims and if there were any exceptions.

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.

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.

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 provided 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 the CAP available for public review in the Clerk-Treasurer's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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