

Town of Marathon

Claims Audit Process

DECEMBER 2022



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

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Report Highlights

Town of Marathon

Audit Objective

Determine whether the Town of Marathon (Town) Board (Board) properly audited claims prior to payment.

Key Findings

The Board was not properly auditing claims prior to approving them for payment. As a result, the risk is increased that claims could have been paid for inappropriate purposes.

In our sample of 100 claims totaling \$203,349:

- 68 claims totaling \$116,411 were not audited by the Board as required.
- 50 claims totaling \$120,992 did not have appropriate support such as a voucher, itemized receipt or invoice.
- 15 claims totaling \$40,352 were approved without evidence of compliance with competitive bidding requirements or the Town's procurement policy.
- Town officials may have saved \$7,559 in fuel costs if they had been able to use the New York State Office of General Services contract pricing option.

Key Recommendations

- Audit all claims submitted for payment as required.
- Ensure all claims have appropriate itemized supporting documentation.
- Comply with competitive bidding and Town policy quote requirements.

Town officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Background

The Town is located in Cortland County and is governed by an elected five-member Board including the Town Supervisor (Supervisor). The Board is responsible for general oversight of Town operations and finances.

The Supervisor serves as the chief fiscal officer and is responsible for the day-to-day operations. The Town's bookkeeper assists the Supervisor by maintaining accounting records and generating financial reports.

The Town has an elected Highway Superintendent (Superintendent), who is responsible for overseeing all highway department operations.

The elected Town Clerk (Clerk) is responsible for preparing and certifying an abstract of audited claims and authorizing the Supervisor to make payments.

Quick Facts

During the Audit Period

Population	2,038
350 Claims Processed	\$704,231
100 Claims Reviewed	\$203,349
Diesel Fuel Purchases	\$46,568

Audit Period

January 1, 2021 – February 28, 2022

Claims Audit Process

What Is an Effective Claims Audit Process?

A town board is responsible for overseeing financial activities and safeguarding resources. Appropriate oversight and monitoring include abiding by prescribed laws and establishing policies and procedures to help ensure that all purchases are authorized and adequately supported, and are actual and necessary expenditures before the town board approves them for payment.

An effective claims audit process ensures that every claim against a town is subjected to an independent, thorough and deliberate review; each claim contains enough supporting documentation to determine whether it complies with statutory requirements and town policies (e.g., procurement policy); and amounts claimed are for legitimate and necessary expenditures.

New York State General Municipal Law (GML) Section 103 generally requires competitive bidding for purchase contracts exceeding \$20,000, with certain exceptions. In lieu of seeking competition, towns are also authorized to make purchases using other publicly awarded government contracts, such as those of a county, or the New York State Office of General Services (OGS). To determine whether competitive bidding is necessary, town officials must consider whether the aggregate cost of a good or service within a 12-month period will exceed competitive thresholds.

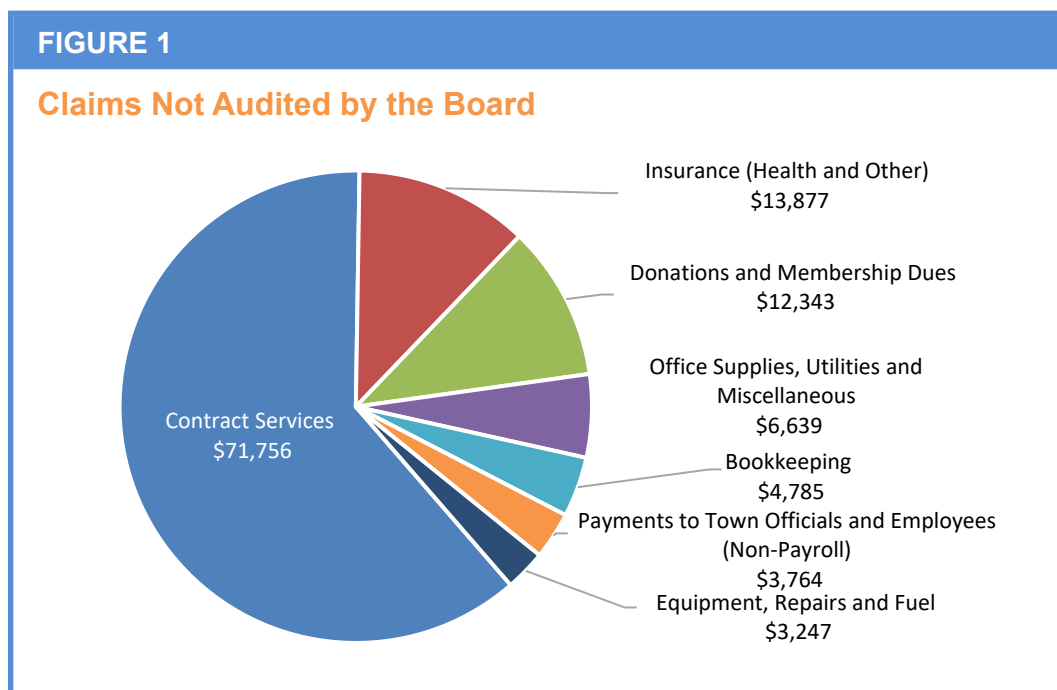
An effective claims audit process also ensures compliance with the Town's procurement policy, which outlines the purchasing process for goods and services not required by law to be bid. The Town's procurement policy requires that goods and services not subject to competitive bidding be secured by the use of written requests for proposals, written quotations or verbal quotations, depending on dollar amounts.

The Board Did Not Properly Audit Claims

During the audit period, the Town paid 350 claims totaling \$704,231. We reviewed a sample of 100 claims totaling \$203,349 to determine whether they were properly audited and supported, and for legitimate purposes.¹ Although we determined that claims were for legitimate Town expenditures, claims submitted to the Board were not always audited or supported with adequate documentation. Furthermore, the Board did not ensure that purchases subject to competitive bidding requirements and the Town's procurement policy were supported with appropriate bids, and verbal and written quotes, as required.

¹ See Appendix B, Audit Methodology and Standards, for details on our sampling selection.

Unaudited Claims – While the Board regularly audited claims paid from the highway fund, it did not audit claims paid from the general fund. Instead, the Clerk read an unaudited list of general fund claims to the Board. The Supervisor told us if Board members questioned a general fund claim, they were given the opportunity to review the claim voucher packet. After the Clerk read the claims to the Board, the Clerk certified the abstract of audited claims directing the Supervisor to make payment. The Supervisor told us it would be too time consuming to audit all claims during a Board meeting. However, officials did not implement alternative methods to ensure each claim against the Town was subject to independent, thorough and deliberate review by the Board prior to payment. From our sample, 68 claims totaling \$116,411 were not audited by the Board (Figure 1).



Because the Board did not audit general fund claims, the risk was increased that improper claims could be paid. After we brought this to the Supervisor’s and Board’s attention, they revised procedures to ensure general fund claims were presented to the Board for audit and approval.

Inadequate Support – Fifty claims totaling \$120,992 lacked adequate support, such as vouchers, itemized receipts or invoices. These claims included all categories from Figure 1. Claims were not always submitted on vouchers or with adequate support because the Board did not require it. The Supervisor told us they did not know a voucher was required for every claim. We reviewed our sample for physical items to determine whether goods were received. In doing

so, we located a snowplow and a repaired vehicle at the Town. Additionally, we reviewed 14 delivery invoices for fuel purchases and confirmed that dates, times and locations matched Town records.

Competitive Bidding – We aggregated diesel fuel purchases (12 claims) for 2021 totaling \$37,611 from our selection of 100 claims to determine whether the Board, as part of the claims audit process, ensured that purchases subject to competitive bidding requirements were competitively bid. We found that officials did not solicit bids or use other competitive methods for these purchases, such as using OGS or county contracts. According to the Superintendent, the Town had issues with untimely fuel deliveries in the past with other vendors and had no issues with the current supplier.

Because Town officials did not seek competition when selecting their fuel vendor, we reviewed all diesel fuel purchases totaling \$46,568 that were made during our audit period. We compared diesel prices the Town paid to prices from OGS contracts. In order to use the contract pricing rates offered through OGS, the Town would need to file necessary requirements with OGS prior to the awarding of such contracts or reach an agreement with the State contract vendor. If the Town had adequate procedures and had been able to use the OGS contract pricing option, Town officials may have saved \$7,559 (16 percent) on diesel purchases.

Procurement Policy and Quotes – We reviewed six claims totaling \$10,598 from our sample of 100 claims to determine whether the purchases were supported with the minimum required number of quotes, in accordance with the Town’s procurement policy. These purchases were for de-icing salt and equipment repairs. Town officials did not have documentation that they had obtained the minimum number of required quotes for three claims for equipment repairs totaling \$2,741. According to the Supervisor, the Board did not follow its procurement policy for the equipment vendor because it made sense to hire the vendor that installed the equipment to repair it.

Without a thorough review of all claims to be paid by the Town, the Board’s ability to effectively monitor Town financial operations was diminished, and errors and irregularities could occur and remain undetected and uncorrected. Furthermore, when the Board does not ensure that appropriate competition is sought before purchases are made, significant cost savings may be missed, and those increased costs are passed on to taxpayers.

What Do We Recommend?

The Board should:

1. Audit all claims submitted for payment as required.
2. Ensure all submitted claims have appropriate itemized supporting documentation.

Town officials should:

3. Comply with competitive bidding and Town procurement policy quote requirements.

Appendix A: Response From Town Officials

**TOWN OF MARATHON
P.O. BOX 615
MARATHON, NY 13803**

December 1, 2022

Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley St.
Binghamton, NY 13901-4417

RE: Corrective Action Plan in Response to 2022 Town of Marathon Claims Audit

Ms. Singer;

We have reviewed the report on the Claims Audit, and as a Town Board, generally agree with the findings.

In response to these Key findings:

1. Auditing Claims: The Board was not reviewing all claims prior to payment. We now audit all claims before approval for payment.
2. Some claims were paid without an itemized receipt. We now require an itemized receipt be attached to all claims.
3. Competitive Bidding: The Board is now going to be more aware of cost of services and purchases so that we can be in compliance with state and town procurement policies. We are researching participating in state bidding for diesel fuel.

Respectfully submitted,

Timothy P. Elliott
Marathon Town Supervisor

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 Town officials and reviewed Board meeting minutes, abstracts, claims and bank statements to gain an understanding of the claims audit process and relevant Town policies and procedures.
- We used our professional judgment to select 100 claims totaling \$203,349. We selected claims made by Town officials and employees; local non-profit groups; all claims from January 2022 and claims with various procurement requirements. We reviewed our sample to determine whether the claims were audited by the Board, supported by itemized receipts or invoices and for appropriate purposes.
- We used our professional judgment to select four vendors that had 28 approved claims totaling \$52,544, subject to the Town's procurement policy or competitive bidding requirements. We reviewed any logs of verbal quotes, written quotes, requests for proposals and/or bids available to determine whether goods and services were purchased competitively. Vendors were selected based on conversations with Town officials and the total for aggregate purchases during 2021.
- We reviewed all 14 claims for diesel fuel purchases made during the audit period totaling \$46,568. We compared the prices paid by the Town to OGS contract prices to determine whether Town officials could have achieved cost savings by using OGS contracts.
- For 16 claims in our sample (14 fuel purchases, a snow plow and a vehicle repair), we reviewed invoice details, delivery receipts and/or located purchased items on Town premises to determine whether goods were received.

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'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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