



Town of Hamburg

Finance Office

2023M-109 | December 2023

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Report Highlights

Town of Hamburg

Audit Objectives

Determine whether the Town of Hamburg's (Town's) Finance Office credit card purchases were supported and for proper Town purposes.

Determine whether the Town's Finance Office payroll was accurate and supported.

Key Findings

The Town Board (Board) and Town officials did not ensure that credit card purchases were supported and for proper Town purposes. As a result, the former Director of Finance (former Director) made improper credit card purchases totaling approximately \$2,000 and approved her own credit card purchases. The former Director was arrested in September 2022 for charges relating to her use of the Town's credit card. She pleaded guilty to disorderly conduct in December 2022.

Additionally, the Board and Town officials did not ensure Finance Office payroll was accurate and supported. The Town made improper, questionable and/or unsupported payroll payments totaling more than \$19,000 to the former Director while one of her direct reports received unsupported out-of-title payroll payments totaling approximately \$1,400. Additionally, the Directors of Personnel approved their own overtime pay totaling more than \$5,000.

Without appropriate controls, department heads could continue to make improper purchases and receive inappropriate or unnecessary payroll payments.

Key Recommendations

- Properly audit claims and ensure credit card purchases are supported by itemized invoices and receipts to ensure they are for a proper Town purpose.
- Properly segregate payroll duties and prohibit officials and employees from approving their own time sheets and overtime.

Town officials agreed with our findings and indicated that they plan to initiate corrective action.

Background

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

The Supervisor is responsible for the proper administration of Town affairs. The Director of Finance (Director), under the direction of the Supervisor, is responsible for the Town's day-to-day financial activities, maintaining accounting records and providing monthly financial reports to the Board. The Town's current Supervisor assumed office in January 2022 and the current Director was appointed in January 2022.

The Town's Finance Office includes the accounting, payroll, personnel and information technology (IT) departments. The Personnel Department is responsible for entering and processing payroll.

Quick Facts

Finance Office Payroll Reviewed	\$400,000
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Finance Office Credit Cards

Number of Credit Cards	4
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Total Transactions	1,283
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Credit Card Purchases	\$395,421
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Audit Period

January 1, 2018 – December 15, 2022
We extended our audit period back to January 1, 2018 to review selected payroll payments.

Credit Card Purchases

The former Director, appointed in January 2017 and terminated on September 22, 2021, was arrested in September 2022 and charged with one count of official misconduct, one count of criminal possession of stolen property in the fifth degree and one count of petit larceny relating to her use of the Town's credit card. She pleaded guilty to disorderly conduct in December 2022.

The Finance Office issued a credit card to the former Director, the IT Director, the Director of Personnel and the Assistant Accountant.

What Are Supported and Proper Credit Card Purchases?

Credit card purchases should be supported by adequate documentation including itemized invoices, or receipts detailing the goods or services provided. There should be sufficient information to determine that the purchases were for proper town purposes. To accomplish this, a town board (board) must provide appropriate oversight and monitoring, which includes auditing and approving payment for credit card charges and establishing written policies and procedures to help ensure that credit card transactions are authorized prior to being incurred and adequately supported. Such policies and procedures should include prior approval for transactions to ensure that transactions are necessary town expenditures.

Department heads should review all credit card purchases made by their department's personnel by reconciling statements with itemized receipts, invoices and purchase orders. If these transactions are made by a department head, this review and approval should be provided by the town supervisor. In addition, claims should be approved and paid timely to avoid unnecessary costs, such as late fees and interest penalty charges. Ultimately, the board is responsible for auditing and approving claims including claims for credit card charges.

Credit Card Purchases Were Not Always Supported or for Proper Town Expenditures

We reviewed 121 credit card statements for four Finance Office employees that included 1,283 transactions totaling \$395,421. Based on our review, 164 transactions totaling \$79,571 were not supported with appropriate documentation, such as invoices or itemized receipts, to demonstrate what goods or services were purchased.

Purchases By The Former Director – The former Director used her Town credit card for 123 transactions totaling \$9,183. We determined that 16 transactions totaling \$1,896 were not supported with sufficient documentation to establish the appropriateness of the purchase. Additionally, the former Director's transaction logs that detail credit card transactions were not always prepared timely. Some of transactions were as follows:

Credit card purchases should be supported by adequate documentation including itemized invoices, or receipts detailing the goods and service provided.

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- The former Director had a total of 11 restaurant charges totaling \$1,251. Eight of these charges totaling \$1,153 did not include itemized receipts listing what items were purchased, but rather included nonitemized receipts with the total amount charged. Some of the charges were documented on the transaction log as meals for staff events, such as “supervisor/fire company meeting,” “midyear meeting,” “department meeting breakfast” and “new year meeting.” However, because the Town did not have a policy for meal purchases at staff events, it was unclear whether these 11 charges were for a proper Town purpose.
 - Two hotel charges totaling \$329 were documented on the transaction log as a “conference expense.” Although these transactions were made in May 2019, the transaction log was completed and signed off on by the Assistant Accountant in October 2021, almost 2.5 years after the credit card statement was paid, as the former Director had not completed and turned in the transaction logs for her credit card purchases.

Additionally, 22 of the former Director’s purchases totaling approximately \$1,200 were either delivered to her home address or were in-person purchases. As such, we reviewed all of the former Director’s transactions and asked a remaining current Finance Office employee to confirm the delivery of these purchases to the Town or existence of items purchased, and whether the purchases were used for Town purposes. The employee was unable to confirm whether any of these purchases were delivered to and/or used for Town purposes, including \$470 of goods purchased from a retail store and \$730 from an online vendor. These purchases included:

- Storage drawers and an organizer for \$320,
- Voice activated assistant with accessories for \$259,
- Area rugs for \$97,
- Office chair for \$72,
- Luggage cart for \$30,
- Tote bag for \$15, and
- Miscellaneous supplies that were for office or home use, such as batteries, stationary, pens and adhesive notepads, totaling \$407.

Purchases By Other Employees – The remaining three Finance Office employees had 1,160 credit card transactions totaling \$386,238. Generally, these transactions appeared to be for proper Town purposes, but 148 transactions totaling \$77,675 were not properly supported with documentation, such as invoices or itemized receipts, or documented on the transaction log. Specifically, 99 transactions totaling \$67,661 were for recurring contractual charges such as Internet, telephone, alarm services, pump station services and newspaper

...22 of the former Director’s purchases totaling approximately \$1,200 were either delivered to her home address or were in-person purchases.

subscriptions. Although these charges were not supported by invoices or itemized receipts, they appeared to be for proper Town purposes because the recurring charges had invoices for the same amounts in other months we reviewed. However, 45 transactions totaling \$9,448, were made by the IT Director and included primarily purchases from an online retailer and a technology company. While the Town did not retain proper supporting documentation, the IT Director told us the purchases were for IT department supplies. When we reviewed similar credit card transactions from these vendors they were for proper Town purposes.

However, the other four transactions totaling \$566 included two restaurant charges, one for \$343 documented on the transaction log as “department head dinner” and one for \$54 documented as “lunch,” and two charges totaling \$169 from an online vendor documented on the transaction log as “office supplies.” Without itemized receipts and because the Town did not have a policy establishing when meal purchases were appropriate, we could not determine whether these transactions were for proper Town purposes.

Additionally, the IT Director and Director of Personnel, as department heads, were responsible for reviewing and approving their own credit card transaction logs. As a result, 993 transactions totaling \$343,271 were reviewed and approved by the same individual who initiated the transactions. Allowing individuals to authorize their own credit card purchases and approve their own credit card statements for payment increases the risk of improper credit card usage.

Although the former Director was responsible for reviewing all credit card purchases and approving the payment of credit card statements, 590 transactions totaling \$212,328 were not approved by the former Director or appropriate department head, including 108 transactions totaling \$37,892 not documented on the transaction logs and 482 transactions totaling \$174,436 in which the transaction log was reviewed and approved by the Assistant Accountant instead of the former Director. We discussed these exceptions with the department heads. The IT Director told us that the transaction logs were completed for every month and forwarded to the former Director with the supporting documentation. However, she told us the former Director was not always available to review and approve the transaction logs. The Assistant Accountant told us a number of unsigned transaction logs and supporting documentation were found in the former Director’s office after her termination, and some of the transaction logs were later signed off by the Assistant Accountant and the current Director. Nine transaction logs and supporting were never located.

The Board did not adopt a credit card policy to guide employees on the procedures for documenting credit card purchases and ensure the proper segregation of duties for credit card purchase procedures, including purchase authorization, review of transactions and payment approval. As a result, Finance Office department heads initiated their own credit card purchases, documented

The Board did not adopt a credit card policy to guide employees on the procedures for documenting credit card purchases. ...

their transactions and certified that their purchases were supported and for proper Town purposes without the oversight of another official.

We discussed the lack of oversight of the former Director's credit card purchases with the Board members and the current Supervisor and Director. The Supervisor and Director told us they are working on drafting a credit card policy to address the deficiencies identified. Two Board members who were on the Board when the former Director made these credit card purchases told us that they were part-time and they did not have time nor were they in a position to review every credit card purchase or to audit every claim. These Board members told us that they relied on the former Supervisor and Director for day-to-day operations, and the individual Board members who were assigned liaison roles for selected departments and audited that department's claims and reported the results to the Board. While the Board can assign certain duties to other Town officials, the Board as a whole remains responsible for the general oversight of the Town's operations and finances, including the proper audit of claims.

Because unsupervised credit card use increases the potential for unauthorized purchases, the Board should establish adequate written policies and monitor and enforce compliance. Without a comprehensive policy enforced by the Board, there is limited control over the use of credit cards and the Town could potentially pay for unauthorized or excessive purchases and officials could have difficulty recovering inappropriate or questionable charges.

What Do We Recommend?

The Board should:

1. Adopt a written credit card policy that establishes procedures for documenting credit card purchases, authorizing credit card use, and reviewing, reconciling and approving credit card transactions.
2. Perform a thorough audit and review of all claims, including credit card statements, and ensure credit card transactions are supported and for proper Town purposes prior to approving payment.
3. Require that department head credit card purchases are reviewed and approved by an appropriate official, such as the Supervisor.

The Director should:

4. Ensure all credit card purchases are documented on the transaction logs prior to payment, supported by itemized invoices or receipts and authorized and approved.

Payroll

Finance Office employees were paid at an out-of-title rate for performing their supervisor's duties when they used leave accruals, and documented the out-of-title and overtime pay on their time sheet which was approved by their department head. Department heads documented their time worked, including any overtime, on the department's payroll input summary that was not reviewed or approved by another official. As such, department heads were allowed to review and approve their own time records without oversight from another official.

What Is Accurate and Supported Payroll?

Payroll should be supported by time records that document the days and hours worked, including any leave accruals used. These records should be reviewed and approved by the employee's supervisor. Prior written authorization should be required for all nonemergency overtime hours and granted only for specific, verifiable purposes, consistent with any collective bargaining agreements, board-adopted policies, procedures, rules or regulations.

Town officials having direct supervision over employees must certify that services indicated on the payrolls were performed and compensation paid to employees was calculated accurately based on actual hours worked and board-approved pay rates. To mitigate risk and help ensure accuracy, town officials having direct supervision over specific departments or individual employees must certify payroll registers or similar records. A review of the completed payroll register will help detect unusual or inaccurate payments requiring further verification before checks are distributed. The certification should indicate that, to the best of the supervisor's knowledge, services were actually performed by the persons listed on the payroll and days and hours worked, including overtime, are accurate, approved and supported. The board should adopt a written payroll policy and town officials should develop procedures that describe the responsibilities of officials and employees when preparing payroll records to submit to the Personnel Department for processing and reviewing and certifying the accuracy of payroll. These procedures should segregate payroll duties so that an employee cannot approve their own time records or overtime.

The Town's Personnel Rules and Regulations (Regulations) establish procedures for Finance Office employees to receive out-of-title pay. The Regulations state, "An employee temporarily assigned to a higher job classification, shall be paid at an additional rate of \$3.00 per hour, while performing the duties of that higher classification. Out-of-title pay can generally only be earned by an employee due to the absence of their direct supervisor. As such, out-of-title pay cannot be earned by an employee if their direct supervisor is recording time worked during the same day."

Payroll should be supported by time records that document the days and hours worked, including any leave accruals used.

The Town Made Improper, Questionable and Unsupported Payroll Payments

We reviewed the 2021 payroll payments totaling approximately \$400,000 made to all nine Finance Office employees. We also scanned the 2022 payroll records. Generally, Finance Office employees were paid accurately and in accordance with the Regulations, except for the former Director and one of her direct reports, as discussed below.¹ During the period January 1, 2018 through November 30, 2022, the Town made improper, questionable and/or unsupported payroll payments totaling \$18,961 to the former Director. Also, the former Director and one of her direct reports received unsupported out-of-title payroll payments totaling \$1,838. Additionally, in 2021 and 2022, overtime payments totaling \$5,611 were paid to three employees but were not approved by a supervisor.

Out-of-Title Pay – We reviewed the out-of-title pay for four employees totaling \$4,121 for 1,373.5 hours and determined that three employees were properly paid. However, for one employee, her supervisor (the former Director) did not always charge leave accruals when this employee earned out-of-title pay. As a result, we extended our review for this employee and the former Director to include January 1, 2018 through December 31, 2021.

During this period, the employee was paid a total of \$4,325 for 1,441.75 hours of out-of-title pay which was supported by time sheets approved by the former Director. However, the former Director did not charge leave time for 460.5 of the out-of-title pay hours as required by the Regulations. Therefore, this employee should not have been paid out-of-title pay totaling \$1,382 because the former Director did not charge leave accruals. The former Director charged leave accruals for the remaining 981.25 hours and the employee was properly paid out-of-title pay totaling \$2,943.

We interviewed the employee, and she told us that she performed the duties of the former Director for the time she was paid at the out-of-title rate because the former Director was not in the office. The employee said she was not aware that the former Director did not charge leave accruals. Although the former Director had the authority and opportunity to reject the employee's time sheets, she approved the out-of-title pay for this employee when approving the time sheets and the Finance Office's payroll input summary for this time period. If the employee claimed it improperly and the former Director was working at the same time, then the former Director approved paying this employee at an unauthorized rate of pay.

¹ See Appendix B for details of our sampling and testing methodology.

If the former Director did not actually work during the 460.5 hours that she approved the employee to receive out-of-title pay for performing her job duties, she was improperly paid \$18,961, as she should have charged leave accruals and received paid leave time instead of receiving regular pay. When an employee separates from employment, they are entitled to be paid the monetary value of their unused vacation time. Therefore, it is important to maintain accurate leave accrual records and regularly reconcile leave balances. The former Director also improperly approved 152 hours totaling \$456 in out-of-title pay for herself in June and July of 2018. Because she was already a department head and there was no higher job classification for her to have been temporarily assigned to, it is unclear why she would receive out-of-title pay. We reviewed the payroll input summaries for these two months and there was no supporting documentation indicating what job duties were performed or why she earned the out-of-title pay. These payroll input summaries were approved by the former Director.

The Director of Personnel told us that the Personnel Department's procedures for processing out-of-title pay includes comparing an employee's time sheet requesting out-of-title pay to their supervisor's charges of leave accruals to ensure the supervisor charged leave during the same time period. However, she said that because the Town had turnover in the Director of Personnel position during our audit period, it is unclear if this practice was in place continuously and whether the employee's time sheet was compared to the former Director's use of leave accruals.

Because the former Supervisor did not review the former Director's payroll and the Town did not have a process for certifying and reviewing payroll registers for accuracy or written procedures for verifying that out-of-title pay is necessary and in compliance with the Regulations, the Town made improper, questionable and unsupported payroll payments.

Overtime – For the period January 1, 2021 through August 31, 2022, the Town paid four employees a total of \$13,750 for 338 hours of overtime. Payments to three employees totaling \$5,611 for 131 hours of overtime were not approved by a supervisor or any other employee or official, as follows:

- The current and former Directors of Personnel were paid overtime for 103.5 hours and 12.5 hours, respectively, totaling \$5,017 for 116 hours of overtime they authorized themselves because the Town did not have procedures for approving overtime for department heads. The Directors of Personnel approved their own time sheets and authorized their own overtime without the involvement of any other Town employee or official, such as the Supervisor.
- A finance office employee was paid \$594 for 14.75 hours of overtime when the employee's supervisor was on leave. The Director of Personnel said the

former Director was responsible for approving the employee's time sheets in the absence of their supervisor, but she did not approve the overtime for this employee.

When overtime is not approved by a supervisor, an employee may be paid for overtime that was unauthorized or unnecessary.

What Do We Recommend?

The Board and Supervisor should:

5. Develop and adopt a written payroll policy or regulations that clearly describes the responsibilities of Town officials and employees for preparing and processing payroll, reviewing and certifying the accuracy of payroll and governing the use and authorization of overtime.
6. Ensure that appropriate officials review and certify the accuracy of payroll, including verifying that out-of-title pay is necessary and paid in accordance with the Regulations or appoint another official or officials to fulfill these responsibilities.
7. Require overtime for the Director of Personnel and other department heads to be approved by an appropriate official, such as the Supervisor.
8. Consult with the Town Attorney to determine what, if any, action should be taken regarding the improper or questionable payroll payments identified in the report.

The Supervisor should:

9. Properly segregate payroll duties and prohibit officials and employees from approving their own time sheets and overtime. If department heads earn overtime, it must be approved by the Supervisor.

The Supervisor, Director and Director of Personnel should:

10. Ensure out-of-title pay is paid in accordance with the Regulations and only when necessary by verifying that the employee's supervisor charged appropriate leave accruals.
11. Establish procedures for an alternate approver for overtime when an employee's supervisor is absent.
12. Develop written procedures that describe the responsibilities of officials and employees when preparing payroll records, authorizing overtime and approving timesheets.

When overtime is not approved by a supervisor, an employee may be paid for overtime that was unauthorized or unnecessary.

Appendix A: Response From Town Officials

TOWN OF HAMBURG

6100 South Park Avenue ♦ Hamburg, New York 14075 ♦ (716) 649-6111 ♦ Fax (716) 649-4087



Supervisor

Councilmembers
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ELIZABETH C. FARRELL
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MEGAN A. COMERFORD

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Town Clerk
CATHERINE A. RYBCZYNSKI

Supt. of Highways
EDWARD S. HUGHES

November 27, 2023

VIA ELECTRONIC MAIL

Division of Local Government and School Accountability
Office of the State Comptroller
295 Main St, Room 1032
Buffalo, New York 14203-2510

Dear

The Town of Hamburg agrees with the findings of the OSC report and these findings will be addressed in the forthcoming Action Plan.

Thank you.

Warm regards,

Randall A. Hoak
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 objectives and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and employees and reviewed policies and procedures to gain an understanding of the Town's credit card purchasing practices.
- We reviewed credit card transaction logs to determine whether purchases were documented, certified by the credit card holder and approved by a department head.
- We documented all credit card transactions for the Finance Office during the period January 1, 2018 through April 30, 2022 to determine whether purchases were properly authorized and approved, adequately supported and for proper Town purposes.
- We reviewed all 123 of the former Director's credit card transactions totaling \$9,183 to determine whether they were for proper Town purposes and whether items purchased were in the Town's possession.
- We interviewed Town officials and reviewed policies, procedures and Board meeting minutes to gain an understanding of the Town's payroll practices.
- We reviewed the Town's Personnel Rules and Regulations handbook to gain an understanding of employee benefits.
- For the period January 1, 2021 through December 31, 2021, we reviewed time sheets, pay rates, overtime earned and compensatory time earned for all Finance Office employees to determine whether employees were paid at the appropriate amount and the correct amount of time worked and earned. We scanned payroll payments from January through August of 2022 to determine whether overtime payments were properly approved, reviewed and documented through August 31, 2022.
- For the period January 1, 2021 through December 31, 2021, we compared the hours paid to employees at the out-of-title rate to leave accruals by the appropriate supervisor to determine whether each employee's supervisor charged leave accruals when the employee received pay at the out-of-title rate. For the Assistant Accountant and former Director, we expanded this review back to January 1, 2018, when the former Director began employment with the Town.

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 objectives.

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

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 Town 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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