



Town of Smyrna

Claims Audit Process

2022M-161 | January 2023

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Report Highlights

Town of Smyrna

Audit Objective

To determine whether the Town of Smyrna (Town) Board (Board) properly audited claims prior to payment.

Key Findings

The Board did not always properly audit claims prior to approving them for payment. We reviewed 173 claims totaling \$338,876 and found:

- Sixteen purchases totaling \$58,502 were approved without evidence of compliance with the Town's procurement policy.
- Diesel fuel purchases totaling \$46,655 were approved without evidence of compliance with competitive bidding requirements.
- Town officials may have saved \$4,246 in fuel costs (9 percent) if they had used the New York State Office of General Services (OGS) contract pricing option.
- The Board did not authorize the pre-payment of utility service claims. As a result, four claims totaling \$1,267 were paid prior to the Board's audit.

Key Recommendations

- Comply with competitive bidding and the Town's procurement policy quote requirements.
- Pass a resolution to authorize the payment in advance of the audit of claims for utility services.

Town officials agreed with our recommendations and indicated that they are taking corrective action.

Background

The Town is located in Chenango County (County) and is governed by an elected five-member Board including the Town Supervisor (Supervisor). The Board is responsible for the 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 elected Highway Superintendent is responsible for overseeing all highway department operations.

The elected Town Clerk collects the claims from the department heads to provide them to the Board for audit at the monthly meetings. The Town's bookkeeper prepares the checks after the Board audits the claims.

Quick Facts

Claims Processed During the Audit Period

Number of Claims	697
Total Dollar Amount	\$862,850

Claims Reviewed

Number of Claims	173
Total Dollar Amount	\$338,876

Audit Period

January 1, 2021 – June 30, 2022

Claims Audit Process

What Is an Effective Claims Audit Process?

An effective claims audit process ensures that every claim against a town is subjected to an independent, thorough and deliberate review; that each claim contains enough supporting documentation to determine whether it complies with statutory requirements and town policies (e.g., procurement policy) and that the amounts claimed represent appropriate town expenditures. The board may by resolution authorize the payment in advance of the audit of claims for utility services (i.e., electric, gas, water, sewer, fuel oil and telephone), postage, freight and express charges. However, all such claims must be presented at the next regular board meeting for audit.

New York State Town Law Section 118 requires a board to audit all claims before payment. Auditing and approving claims is an important part of a board's responsibility to help ensure that tax dollars are spent efficiently, and ensure that all purchases are authorized, adequately supported and are actual and necessary expenditures before approving them for payment.

New York State General Municipal Law 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 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 bidding thresholds.

The Town's procurement policy 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 All Claims

We reviewed 173 claims totaling \$338,876 to determine whether they had adequate supporting documentation and were audited by the Board. We included claims from various procurement policy and competitive bidding thresholds to determine whether the Board ensured compliance with competitive bid requirements and the Town's procurement policy.

We found that claims presented to the Board were supported and were legitimate Town expenditures. However, the Board did not ensure that all purchases subject to competitive bid requirements and the Town's procurement policy were supported with appropriate bids, and verbal and written quotes, as required, and some claims were paid prior to Board audit.

Procurement Policy and Quotes – We reviewed purchases totaling \$189,342 (81 claims) from our sample of 173 claims to determine whether those purchases were supported with the minimum required number of quotes, in accordance with the Town’s procurement policy. These purchases included fuel oil, kerosene, gasoline, highway materials, vehicle parts and rentals. The Highway Superintendent could not support he had obtained the minimum number of required quotes for purchases within the claim packets totaling \$58,502. For example, he could not provide quotes for highway materials, vehicle parts and an equipment rental. Furthermore, we were not provided with evidence that these purchases were made off State or County contracts.

Competitive Bidding – We aggregated two purchases for highway emulsion totaling \$48,496, 57 diesel fuel purchases totaling \$46,655, and selected a truck purchase totaling \$41,996 to determine whether the Board, as part of the claims audit process, ensured that purchases subject to competitive bid requirements were competitively bid. The truck and highway emulsion were properly purchased through a State or County contract. However, officials could not support that competition was sought for the diesel fuel or that the fuel was purchased off a contract.

According to the Highway Superintendent, the Town has been purchasing fuel through Board of Cooperative Educational Services contracts. However, Town officials were unable to obtain a copy of the contract terms.

We compared the prices the Town paid for diesel fuel purchases with the prices available from OGS contracts and found that Town officials may have saved \$4,246 (9 percent) on diesel fuel if they had used the OGS contract pricing option.

To obtain the prices offered through State contracts, Town officials would need to file the necessary fuel requirements with OGS before OGS awards its State contracts for fuel. If officials do not file these requirements before OGS awards the State contracts, the Town would have to receive an agreement from a State contract vendor to be added to its delivery schedule.

Claims Paid Prior to Audit – The Town paid four claims for utilities, totaling \$1,267, prior to Board audit. These claims were subsequently audited at the next Board meeting. However, the Board did not pass the required resolution to authorize the payment in advance of the audit of claims for utility services.

Without a thorough review of all claims to be paid by the Town, the Board’s ability to effectively monitor Town financial operations is diminished and errors and irregularities may 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. Ensure all submitted claims adhere to competitive bid requirements and the Town's procurement policy before authorizing payment.
2. Adopt a resolution authorizing the payment in advance of audit for claims for utility services.

The Highway Superintendent should:

3. Comply with competitive bidding requirements and the Town's procurement policy quote requirements.
4. Periodically compare quotes from vendors to State and other government contracts to help ensure purchases are cost effective and in the best interest of taxpayers.

Appendix A: Response From Town Officials

Town of Smyrna

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Smyrna, NY 13464
ph. 607.627.6275

12/28/22

████████████████████
Office of New York State Comptroller
Division of Local Government & School Accountability
110 State Street - 12th Floor
Albany, NY 12236

Dear ██████████

This letter will serve as a response to the Draft version of your Report of Examination. The Town Board, Highway Superintendent and myself have reviewed your report and key findings.

Our response is as follows:

- *Sixteen purchases totaling \$58,502 were approved without evidence of compliance with the Town's procurement policy.* At each monthly meeting, the Smyrna Town Board reviews and determines the appropriateness of each purchase based on specifications of product, reliability, availability & urgency. However, it is recognized that the Town of Smyrna has maintained a decades old, outdated procurement policy. Corrective Action: The Town Board will revamp and revise the procurement policy at the January Organizational Meeting. It will reflect our Town's commitment to saving taxpayers dollars while measuring the value of each purchase. Documentation will be included on each voucher.
- *Diesel fuel purchases totaling \$46,655 were approved without evidence of compliance with competitive bidding requirements.* Since 2012, the Town has specified Mirabito Energy products as an approved supplier of diesel fuel & kerosene deliveries. Their service record on fuel quality, uninterrupted deliveries and customer service have made them a valuable partner. Attempts to change vendors in the past have not been successful. Deliveries were missed and fuel quality suffered. Corrective Action: Review alternative sources, compare pricing based on OGS and determine the best course for 2023.

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- *Town officials may have saved \$4,246 in fuel costs (9 %) if they had used the New York State Office of General Services (OGS) contract pricing option.* The Town Board will review the details of that analysis and determine if the variables used would affect the figure stated above. ie. Poor fuel quality could affect engine performance and damage injectors. Missed fuel deliveries could be detrimental to the safety and well-being of those traveling the roads in the winter.
 - *The Board did not authorize the pre-payment of utility service claims. As a result, four claims totaling \$1,267 were paid prior to the Board's audit.*
Corrective Action: A resolution will be passed during our January 2023 Organizational Meeting to specifically authorize each of the pre-payments made by the Town.

There may be more changes made based on the Audit Draft Report. This will also be discussed at the January Meeting. In the meantime, if you have any questions, please contact me anytime.

Sincerely,

Michael R. Khoury
Supervisor- Town of Smyrna

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 (list of audited claims) and claims to gain an understanding of the claims audit process and relevant Town policies and procedures.
- We used our professional judgment to select a sample of 79 claims totaling \$277,551 to determine whether claims were properly supported by invoices or itemized receipts, audited by the Board and for appropriate purposes. We chose our sample to include claims from various procurement policy and competitive bidding thresholds, including 10 fuel claims, totaling \$11,488, highway aggregate materials and a vehicle purchase, to determine whether claims adhered to the Town procurement policy and competitive bid requirements.
- We aggregated a total of 104 fuel purchases totaling \$72,813 and compared them to OGS contract prices to determine any potential cost savings for 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 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 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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Division of Local Government and School Accountability
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