



Village of Horseheads

Claims Auditing and Disbursements

2023M-134 | May 2024

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Report Highlights

Village of Horseheads

Audit Objective

Determine whether Village of Horseheads (Village) officials properly audited claims and authorized non-payroll disbursements.

Key Findings

Based on our sample of \$1.1 million in claims and disbursements reviewed, Village officials did not properly audit all claims or authorize disbursements. As a result, payments were made for unsupported, duplicate and/or improper claims. Village officials did not:

- Ensure an independent review of Parks and Recreation Department (Department) claims occurred.
- Ensure all claims contained adequate supporting documentation for 140 purchases totaling \$44,547.
- Ensure the Village's procurement policy was followed for three purchases totaling \$19,179.
- Document whether claims were audited prior to funds being disbursed.
- Monitor telephone and Internet services for necessity, which resulted in expenditures of \$5,406 for 11 service lines with no usage.

The Comptroller's Office commenced a separate investigation into the possible misappropriation of Village funds. In August 2023, the Assistant Clerk was arrested on the charges of grand larceny in the third degree and corrupting the government. In March 2024, the Assistant Clerk pleaded guilty to attempted petit larceny and paid full restitution.

Key Recommendations

- Perform a deliberate and thorough audit of claims and supporting documentation and transmit an order to pay claims.
- Ensure that claims contain sufficient documentation to support compliance with the Board policy requiring competition when procuring goods and services.
- Establish procedures to detect and prevent the approval and payment of duplicate claims.
- Periodically review and determine the necessity of telephone and Internet services for usefulness.

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

Audit Period

June 1, 2021 – December 31, 2022. We extended our audit scope period to March 6, 2024 to provide details on the former Assistant Clerk's investigation.

Background

The Village is located in the Town of Horseheads in Chemung County and is governed by an elected five-member Board of Trustees (Board) composed of the Mayor and four Board members.

The Board is responsible for the overall management and oversight of Village operations. The Village Manager (Manager) is the chief administrative and executive officer and is responsible for implementing the policies adopted by the Board. The Board delegated the responsibility of auditing claims to the Manager. The Board appointed the Manager as purchasing officer for the Village.

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

Quick Facts

During the Audit Period

Number of Non-Payroll Disbursements	1,849
Total Non-Payroll Disbursements	\$5.2 million
Total Claims and Disbursements Reviewed	\$1.1 million

Claims Audit and Non-Payroll Disbursements

What is a Proper Claims Audit and Non-Payroll Disbursement Authorization?

A proper claims audit determines whether the claim complies with village policies, the amount claimed represents actual and necessary expenditures, and the proposed payment is for a valid purpose. To perform this audit, each claim must contain enough supporting documentation for the claims auditor to make these determinations. In addition, the expenditure must have been incurred by an authorized village official and items and services were received or rendered.

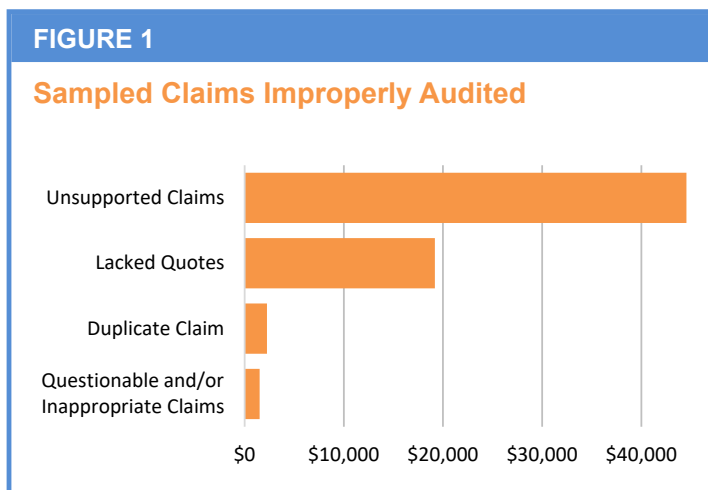
Submitted vouchers must be in the proper form, mathematically correct and consistent with purchase orders or contracts upon which the purchases are based. In addition, submitted vouchers must not include previously paid charges.

As a best practice, officials and staff directly involved with the purchasing function of specific village departments should not be delegated the task of auditing claims associated with those departments.

A claims auditor should transmit a properly dated order to pay audited claims directly to the treasurer. When electronic signatures are utilized for check signing purposes, the signature should be protected from unauthorized use and the treasurer should be present when the signature is applied.

The Manager Did Not Properly Audit All Claims

We reviewed 280 claims totaling \$940,702 and determined that 171 purchases (55 claims) were not properly audited, as the purchases lacked adequate support, were paid in duplicate and were for questionable and/or inappropriate purposes (Figure 1). Furthermore, we could not determine whether the claims were audited prior to payment because there was no record to support the date of the claims review and approval, such as an order to pay. Unless stated otherwise, we were able to determine that the claims were for legitimate Village purposes by reviewing supporting documentation, conducting discussions with Village officials and locating assets.



Department Claims – The Manager had conflicting duties as he served as the Department’s Board-appointed director with purchasing authority and audited the Department claims. As a result, according to Village records, Department claims totaling approximately \$178,000 were not independently audited during the audit period. Furthermore, from our sampled claims, 25 purchases totaling \$13,963 pertained to the Department and lacked adequate support. The Manager told us he continued to perform the director’s responsibilities because Village officials had difficulty filling the Department’s director position.

Unsupported Claims – We determined that 140 purchases totaling \$44,547 (42 claims) lacked adequate support, such as itemized receipts (131 purchases) and purchase orders (nine purchases), as required by the Village’s procurement policy. The Manager told us he was familiar with Department claims and if he had a question on a claim he would ask. However, all claims must contain enough supporting documentation to ensure the proposed payment is for a valid purpose, and an independent audit of claims does not occur when the Manager audits his own department’s claims.

Quotes – We reviewed six purchases totaling \$57,432 (six claims) to determine whether the purchases were supported with the minimum number of quotes in accordance with the procurement policy. Village officials could not support that they obtained the minimum number of quotes required for half the purchases reviewed. Three purchases for athletic uniforms, chemicals and pyrotechnics totaling \$19,179 lacked the required quotes. The Manager told us he considered the pyrotechnics a professional service. However, the Manager did not document the basis for his professional service determination, as required by the procurement policy.

Duplicate Claim – The Manager approved a duplicate claim for building materials resulting in an overpayment of \$2,252. The Clerk-Treasurer told us she was unaware of the duplicate payment, but the overpayment was credited to the Village’s account because the vendor discovered the duplicate payment and applied the overpayment to the Village’s ensuing invoice. Although the Village received vendor credit, officials should not rely on the honesty of vendors to ensure credits are awarded.

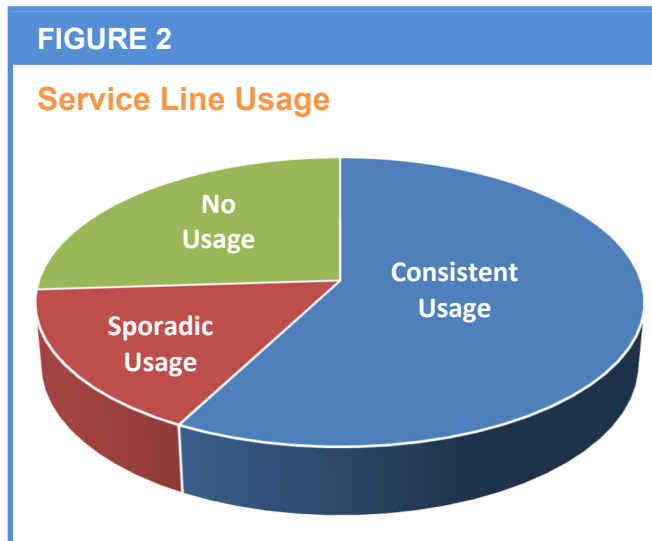
Questionable and/or Inappropriate Claims – The Manager approved 39 purchases totaling \$15,508 for questionable and/or inappropriate Village expenditures. Nine purchases totaling \$785 (nine claims) were for flower arrangements, which the Clerk-Treasurer told us were for funerals. However, this is not an appropriate use of taxpayer money.

Twenty-nine purchases included sales tax totaling \$493. However, the Village is exempt from sales tax. The Manager told us he did not ensure all employees were properly instructed on how to receive tax exempt status when making purchases.

Additionally, the Manager approved a claim for an amount that included a credit card processing fee. However, because Village officials did not pay with a credit card, they overpaid the claim by \$228.

Finally, an order directing the Clerk-Treasurer to pay audited claims, including an abstract of all claims audited, was not transmitted from the Manager to the Clerk-Treasurer. Properly performing this procedure may have prevented duplicate payments and overpayments because this would allow pending payments to be compared with previous abstracts.

Telephone and Internet Services – We reviewed 22 claims for telephone and Internet services totaling \$20,797 and determined that the Manager approved claims for service lines with limited or no usage. The Village maintained 33 service lines connected to cell phones, tablets, Wi-Fi hotspots, laptops and modems. Records showed that eight lines, accounting for \$11,996 (58 percent) of the total telephone and Internet service purchases, had usage in all months that the lines were active. However, \$5,406 (26 percent) was spent on 11 lines that had no usage and the remaining 14 lines showed sporadic usage, ranging from one to 17 months without use during the audit period (Figure 2).



The Clerk-Treasurer told us the Village was contractually obligated to these service lines, as the devices were purchased at a reduced rate for a multiyear contract. However, the Clerk-Treasurer was unable to produce contracts to validate this claim. Additionally, the Clerk-Treasurer stated that some of the

lines are priority phones and necessary for emergency preparedness. However, the two fire department service lines with no usage also had voice messages indicating that the lines were either disconnected or never set up. Furthermore, the police chief told us the two police service lines with no usage were Wi-Fi hotspots that were no longer needed.

Audit Approval – While the Manager initialed claims indicating his review was complete, there was no record to support the date of his claim review and approval, such as an order to pay. As a result, we could not determine whether disbursements occurred prior to the Manager’s authorization.

The Village’s claims were not properly audited because the Board and officials did not ensure claims were properly reviewed and approved. The Board and officials also did not convey their expectations for auditing claims in Village policies or procedures. Additionally, the Board did not appoint an independent auditor for the Department’s claims. As a result, officials paid duplicate and questionable and/or inappropriate claims totaling \$3,758 and may have paid for unnecessary telephone and Internet services totaling at least \$5,406. Furthermore, by not documenting procurement efforts, officials are unable to assure taxpayers that Village officials are procuring goods and services in the most prudent manner and in accordance with the Village’s procurement policy. We provided the Board and Manager guidance through our claims audit publication, *Improving the Effectiveness of Your Claims Auditing Process*.¹

The Clerk-Treasurer Did Not Properly Authorize Non-Payroll Disbursements.

The Clerk-Treasurer did not properly authorize non-payroll disbursements because the account clerk utilized the Clerk-Treasurer’s electronic signature to sign Village checks without the Clerk-Treasurer’s direct oversight. Additionally, an order directing the Clerk-Treasurer to pay audited claims was not transmitted from the Manager to the Clerk-Treasurer. Therefore, the Clerk-Treasurer did not know the dollar amount of claims audited and ready to be paid. Because of these inadequacies, we reviewed 89 non-payroll disbursements to determine whether they were for legitimate purposes. We determined these disbursements were for appropriate Village purposes.

The Clerk-Treasurer told us she did not consider the potential for misuse of her signature. In December 2022, we verified that Village officials modified authorizations in the accounting software so that supervisory approval from the Clerk-Treasurer or Manager was required before a check was printed. The Clerk-Treasurer told us that the Village’s accounting system lacks an order to pay

¹ <https://www.osc.ny.gov/files/local-government/publications/pdf/improving-the-effectiveness-of-claims-auditing-process.pdf>

function, preventing the Manager from directing the Clerk-Treasurer to pay claims associated with the Manager's audit of claims. However, officials did not directly contact the software vendor to determine whether this capability could be added.

Without an order to pay, Village officials are unable to ensure the correct amount approved during the claims audit is subsequently disbursed. When the Clerk-Treasurer does not directly oversee the check preparation process, there is an increased risk that errors or inappropriate transactions could occur and remain undetected.

What Do We Recommend?

The Board should:

1. Ensure an independent audit of all claims occurs which would include auditing Department claims if the Manager continues to serve as Department head.
2. Develop written policies that provide guidance on the audit of claims.
3. Ensure Village officials comply with the Board policy requiring competition when procuring goods and services.

The Manager should:

4. Refrain from auditing claims that result in conflicting duties, such as auditing Department claims.
5. Ensure that claims contain sufficient documentation to support compliance with the Board policy requiring competition when procuring goods and services.
6. Perform a deliberate and thorough audit of claims and supporting documentation, and ensure that claims are adequate and complete, do not include sales tax, and are for appropriate Village purposes.
7. Transmit an order to pay audited claims to the Clerk-Treasurer.
8. Establish procedures to detect and prevent the approval and payment of duplicate claims. Such procedures could include requiring only original invoices be submitted for approval of payment and reviewing prior months' claims and abstracts prior to processing claims.

The Clerk-Treasurer and department heads should:

9. Periodically review and determine the necessity of telephone and Internet services and disable/terminate lines no longer needed.

The Clerk-Treasurer should:

10. Maintain control of their electronic signature.

Appendix A: Response From Village Officials



VILLAGE OF HORSEHEADS

202 SOUTH MAIN STREET
HORSEHEADS, NY 14845

Mayor Kevin Adams
Attorney John G. Groff
Clerk-Treasurer Donna Dawson
Manager Nathan Nagle

CLERK'S OFFICE - (607) 739-5691
VILLAGE MANAGER - (607) 739-5691
FAX - (607) 739-3941
www.horseheads.org

Deputy Mayor William Goodwin
Trustees Patricia Gross
George Koliwasky
Ron Finefrock

Office of the State Comptroller
Binghamton Regional Office
44 Hawley Street – Suite 1702
Binghamton, NY 13901

Re: Claims Auditing and Disbursements, Report of Examination 2023M-134

On behalf of the Village of Horseheads, I would like to thank the Office of the State Comptroller (OSC) staff for the time spent conducting our audit. The audit process was educational and beneficial for the Village of Horseheads and its staff.

The Village received notification from OSC in October 2022, that a Village audit would be performed. Over the next 19 months OSC staff performed the audit of the Village. The process started with a Risk Assessment (RA) of Village operations. As a follow-up to the RA, the Comptroller's Office focused on Claims Auditing and Disbursements for the formal audit, using June 1, 2021, through December 31, 2022, as the audit period.

Village staff and I have reviewed the draft Report provided and have the following responses to the findings. A Corrective Action Plan (CAP) will be submitted within the next 90 days.

While the Village of Horseheads does not dispute any of the findings, we believe that further explanation is warranted.

- **Department Claims** – The findings are accepted. During the audit period, the Village Manager was performing dual duties, those of the Village Manager position and the Director of Parks and Recreation, as the latter position was vacant. Since the audit, the Village has implemented procedures where different reviewers and signatures are required and will be used when processing claims. As part of the CAP, additional measures will be implemented.
- **Quotes** - The findings are accepted. Due to the certifications and licenses necessary for pyrotechnic displays, the Village deemed pyrotechnic services professional. The Village, as the audit indicates, did not document the basis for determining pyrotechnic as a professional service as required by our procurement policy. Regarding the purchase of athletic uniforms, the uniforms were originally quoted and purchased in accordance with the Village Procurement Policy when the cheerleading program was first established. In following years, the Village, using the same vendor, had made replacement orders for the initial uniforms when needed either for new participants to the program or when new sizing was needed. The same vendor was used so the pattern, style, and colors would match year after year. The Village, as the audit indicates, did not document the reason for the using the same vendor each year,

thus deviating from the Procurement Policy. As part of the CAP, additional measures will be implemented.

- **Duplicate Claim** - The finding is accepted. A vendor submitted the same invoice for payment a month apart. Each invoice was processed and paid. The error occurred when payment was entered into our payable's software program using different coding for each invoice. Thus, the software was unable to identify the second submittal as a duplicate. Regardless, the second invoice should have been detected as a duplicate prior to payment. As part of the CAP, additional measures will be implemented.
- **Questionable and/or Inappropriate Claims** - The findings are accepted. As identified in the Report it was customary for the Village to send a flower arrangement for deceased former employee and/or elected official to a funeral home. The Village now understands that this expenditure is deemed inappropriate. This practice has ended following our discussions with the auditors.
Oversight and miscommunication caused the overpayment of discounted shipping fee. Coincidentally the shipping fee was the same amount as the credit card processing fee. Regardless of discounted shipping fee or credit card processing, an overpayment was inappropriately made. Further education of staff will be included as part of the CAP.
The Village is aware that we are not to pay sales tax on purchases. There were some instances when employees were attending out of state educational training(s) where the host state does not recognize NYS (New York State) Sales Tax Exemption. In these situations, we need to educate our staff to document the reason for paying the host state sales tax. In other situations, to where sales tax was paid, further education of staff will be included as part of the CAP.
- **Telephone and Internet Services** – The findings are accepted. There are several lines that have minimal or no use. These data lines include the Board of Trustees, Cemetery, Parks & Recreation, Fire Department, and Police Department. That said, all Village phones are on the same 25G Data Plan. The Village will reevaluate its data line(s) usage and/or need for certain lines. As part of the CAP, additional measures will be implemented.
- **Audit Approval** – The findings are accepted. The prior practice of the Clerk/Treasurer and Village Manager was to initial each claim. The practice of approving claims has been upgraded to full name (First and Last) signature to include date of signature. As part of the CAP, additional measures will be implemented.

A Corrective Action Plan (CAP) that addresses all recommendations of the Report of Examination is being written for review and approval by the Village Board of Trustees for later submission to the OSC.

The Village thanks the Office of the State Comptroller for its thorough review of its procedures and looks forward to improving its procedures to address all audit recommendations.

Sincerely,

Nathan Nagle
Village Manager
Village of Horseheads

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Village officials and reviewed policies, procedures, Board meeting minutes and resolutions to gain an understanding of and evaluate the adequacy of procedures related to the claims audit and disbursement processes.
- We used the Village's general ledger report to approximate the amount of Department claims audited by the Manager during our scope period.
- We used our professional judgment to select a sample of two of the 19 months (11 percent) of claims activity in our audit period paid from the Village's joint checking account. We reviewed 166 claims totaling \$834,735 to determine whether they were properly supported, for appropriate Village purposes, audited and approved before payment and included unnecessary taxes. We included claims from different fiscal years and seasons which resulted in a variety of vendors.
- We used our professional judgment to select a sample of six claims totaling \$57,432, from our sample of 166 claims, that required a various number of quotes from the multiple thresholds of the Village's procurement policy. We included a variety of products and vendors to determine whether officials adhered to the policy.
- We expanded our initial sample of 166 claims to include all purchases from a floral vendor, resulting in seven additional claims totaling \$785 being reviewed to determine whether they were properly supported, for appropriate Village purposes, audited and approved before payment, and whether any unnecessary taxes were paid.
- We expanded our initial sample of 166 claims to include 22 claims totaling \$20,797 from a telephone and Internet service vendor to determine whether service activity was monitored and claims were properly supported, for appropriate Village purposes, audited and approved before payment and included unnecessary taxes.
- We selected all 23 claims totaling \$1,097 made to Board members, department heads, and Clerk-Treasurer department employees to determine whether they were properly supported, for appropriate Village purposes, audited and approved before payment and included unnecessary taxes.

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- We used our professional judgement to select a sample of 12 of the 19 months (63 percent) of credit card and line of credit activity. We reviewed 62 credit card and line of credit claims totaling \$83,288 to determine whether they were properly supported, for appropriate Village purposes, audited and approved before payment and included unnecessary taxes. We included claims for 12 consecutive months which resulted in a sufficient variety of activity and vendors.
 - We reviewed all disbursement activity recorded in the accounting records during our audit period to determine whether the Village made any duplicate payments. We reviewed Village records to determine whether the Village received credits or returned checks for any identified duplicate claims.
 - We reviewed all 66 utility vendor disbursements totaling \$152,687 during the audit period to determine whether they were legitimate Village expenditures.
 - We selected all 23 non-payroll disbursements totaling \$1,097 made to Board members, department heads and Clerk-Treasurer department employees to determine whether they were legitimate Village expenditures.

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.ny.gov/files/local-government/pdf/regional-directory.pdf

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

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

www.osc.ny.gov/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

<https://www.osc.ny.gov/local-government>

Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief of Municipal Audits

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

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