



# Town of McDonough

## Financial Operations

### Report of Examination

Period Covered:

January 1, 2016 – March 23, 2017

2017M-120



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2017

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of McDonough, entitled Financial Operations. This audit was conducted 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.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Town of McDonough (Town) is located in Chenango County (County) and has approximately 890 residents. The Town is governed by an elected five-member Town Board (Board) which is composed of four Board members and the Town Supervisor (Supervisor). The Board is the legislative body responsible for overseeing Town operations, including procuring goods and services and auditing claims. The Supervisor serves as the chief executive officer and chief fiscal officer and is generally responsible for the administration and supervision of the Town's day-to-day fiscal operations, including maintaining the accounting records and providing the Board with timely, accurate and useful financial information. The Supervisor appointed a bookkeeper to help maintain the accounting records.

The Town does not have a centralized purchasing function, so each department head, such as the Highway Superintendent, is responsible for the purchasing activities for his or her department. The Board is responsible for ensuring that each department head complies with the Board's adopted procurement policy.

The Town provides various services to its residents including general government support and road maintenance and improvements. The 2017 budgeted appropriations for the general and highway funds total \$678,550, which are funded primarily by real property taxes, sales tax and State aid.

## Objective

The objective of our audit was to review the Town's financial operations, specifically the procurement, claims audit and disbursement procedures. Our audit addressed the following related question:

- Did Town officials ensure that purchases were at the best price and disbursements were for proper Town purposes?

## Scope and Methodology

We examined the Town's procurement, claims audit and disbursement processes for the period January 1, 2016 through March 23, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. 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.

**Comments of Local Officials  
and Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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 forwarded 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 this plan available for public review in the Town Clerk's office.

## Financial Operations

The Board and Supervisor are responsible for providing oversight of the Town's financial operations. Their responsibilities include ensuring that goods and services are acquired at the lowest possible prices, claims are thoroughly reviewed and approved and that disbursements are for proper Town purposes. If disbursement duties cannot be segregated, Town officials should provide additional oversight by reviewing bank reconciliations, bank statements and canceled check images periodically and during the annual audit of the records for all departments that receive or disburse Town funds.<sup>1</sup>

Town officials did not always ensure that purchases were at the best prices and disbursements were for proper Town purposes. Town officials purchased goods and services totaling \$265,200 without soliciting competition, selecting the lowest bidders or using County or New York State Office of General Services (OGS) pricing. In addition, cost-benefit analyses were not conducted with consideration of other factors that impacted the purchasing decision. Also, disbursement duties were not segregated and mitigating controls were not put in place. As a result, there is an increased risk that public money will not be used in a prudent and economical manner and that errors or irregularities could occur and not be detected. In addition, claims may not be paid for proper Town purposes or prices.

### Procurement

General Municipal Law (GML) generally requires the Board to advertise for bids on purchase contracts of more than \$20,000 and public works contracts of more than \$35,000. Purchases should be made from the lowest responsible bidders and legal alternatives include purchasing through OGS or County contracts. However, the Board's adopted procurement policy establishes bidding thresholds of \$10,000 for purchase contracts and \$20,000 for public works contracts and the solicitation of quotes<sup>2</sup> for purchases below the bidding thresholds.

We reviewed all ten purchases totaling \$287,500 requiring competitive bidding according to the Board's policy (six of these purchases also meet GML bidding thresholds). We found seven exceptions as follows:

<sup>1</sup> The Board is required to perform (or cause to be performed) an annual audit of the records for all departments that receive or disburse Town funds.

<sup>2</sup> Purchases greater than \$500 and less than \$3,000 require two verbal quotes and purchases greater than \$3,000 and less than \$10,000 require three written quotes. Documentation shall be presented to the Board before the purchase is made and kept on file after the approval of the purchase.

- The Board paid \$33,100 for fuel<sup>3</sup> used in vehicles and facilities during our scope period. In December 2015, the Board received three bids for 2016 fuel purchases. Instead of choosing the lowest bidder, the Board continued to use the bidder who had been providing fuel to the Town for several years. In addition, the November 2016 minutes stated the Board would continue using this vendor in 2017 without soliciting competition. We found the Town could have saved approximately \$4,400 over the two years if it had purchased from the lowest bidder in 2016 and used the OGS supplier in 2017. Town officials told us their vendor provides and services the pumps. However, there was no cost-benefit analysis to determine if this arrangement was the most cost-effective.
- Repairs to a loader totaling approximately \$11,500. The October 2016 minutes stated the Board discussed repairs to the loader and reviewed quotes but there was no documentation to indicate the repairs were bid or that the Board chose the lowest price.
- Dust control products totaling \$27,200. The Highway Superintendent did not bid these products. As a result, he paid slightly more than he would have for a similar product that was available on the County contract.
- Road maintenance products totaling \$12,500. The Highway Superintendent used the same vendor as he did for the dust control products. Although the vendor matched the low bid price, it was not the winning bidder for that product.
- Three purchases of road materials totaling \$72,000. Although the Highway Superintendent used vendors on the County contract, he may not have paid the lowest prices because the County contract summary did not provide sufficient details to determine which vendors offered the lowest total costs. For example, delivery charges were often not listed or the delivery charges were flat rates rather than per-mile charges and vendors were using different units of measure for the products. Therefore, the Highway Superintendent was not able to prepare cost benefit analyses to demonstrate that these factors were considered and the lowest overall prices were paid.

We reviewed all 55 purchases totaling \$108,900 that required written or verbal quotes and found all lacked supporting documentation

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<sup>3</sup> These fuels include diesel, gasoline, propane, kerosene and fuel oil.

indicating competition was sought. The Highway Superintendent and one Board member told us they were unaware of the need to document quotes. As a result, there is an increased risk that public money will not be used in a prudent and economical manner to acquire goods and services of maximum quality at the lowest possible cost and to guard against favoritism, improvidence, extravagance, fraud and corruption.

## **Claims Audit**

New York State Town Law requires the Board to audit and approve claims before the Supervisor can disburse payment. An effective claims audit ensures that each claim is itemized, accompanied by an invoice or receipt, and represents a proper charge in accordance with Town policies and law. Each voucher packet or invoice should allow the Board to determine that each product was procured at the lowest cost.

While the Board, by resolution, approved an abstract listing of claims, board members did not review individual claims to ensure that transactions were for proper Town purposes. Instead, the Board reviewed the abstract of claims and, on occasion, invoices of claims if questions arose.

As a result, all 65 claims we reviewed for the purchases noted above did not contain supporting information to indicate that goods were procured in a manner to assure the prudent and economical use of public money. For example, although three purchases were from the County bid contract, there was nothing in the voucher packet or on the invoice that would allow the Board to determine that the product was procured at the lowest reasonable cost or that the proper price was charged to the Town.

We ensured that the Town was charged the correct rates for the materials that were either Town or County bid items on six purchases totaling approximately \$203,100 as well as diesel fuel purchased in 2016 totaling \$13,200.

We also reviewed 74 additional claims totaling approximately \$21,700 and found that, except for minor discrepancies for reimbursements to Town officials which we discussed with them; these claims were approved by the Board and contained enough information to determine they were for proper Town purposes.

## **Disbursements**

The Board and Supervisor are responsible for ensuring that disbursements are for proper Town purposes. Duties should be separated so that no one employee controls all phases of a financial transaction process. When segregation of duties is not possible, active supervision and oversight become even more important. For example, someone independent of check preparation should be reviewing bank



reconciliations, bank statements and canceled check images to ensure disbursements are approved by the Board.

The bookkeeper has the ability to print checks and transfer funds. Although the Supervisor signs the checks, no one independently reviews the bank reconciliations, bank statements or canceled check images periodically or during the annual audit of the records for all departments that receive or disburse funds. Also, the Board does not perform adequate claims audits as previously discussed. These procedures could detect errors or irregularities should they occur.

We compared 740 checks in the accounting records totaling approximately \$846,800 to the check numbers and dollar amounts on the bank statements. Although this testing was not designed to provide assurance that the disbursements were for proper purposes, we found that all checks were properly recorded in the accounting system as paid. We also scanned the bank statements and found there were no cash withdrawals, all the interfund transfers were deposited into other Town bank accounts and wire transfers out were for proper purposes.

The Board members' and Supervisor's inadequate oversight occurred due to a general lack of training and awareness of their fiscal roles and responsibilities. Board members believed their oversight practices, which included approving abstracts and a brief annual audit, were sufficient to meet policy or legal requirements. In addition, the Supervisor did not believe the bookkeeper would ever issue checks for improper purposes because the Supervisor's signature was required on the checks.

Although our claims audit testing and scan of check images and bank statements provided reasonable assurance that disbursements were appropriate, the lack of segregation of duties increases the risk that errors or irregularities could occur and not be detected and that claims may not be for proper Town purposes.

## Recommendations

The Board should:

1. Use the training resources available on our website including *Information for Town Officials* and *Seeking Competition in Procurement*.<sup>4</sup>
2. Annually review and update the procurement policy.

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<sup>4</sup> See <http://www.osc.state.ny.us/localgov/pubs/townoff/ito.pdf> and <http://www.osc.state.ny.us/localgov/pubs/lmg/seekingcompetition.pdf> and <http://www.osc.state.ny.us/localgov/pubs/listacctg.htm>

3. Ensure that the requirements for soliciting competitive bids, obtaining quotes and maintaining documentation are communicated to and complied with by Town officials and employees.
4. Audit claims prior to payment to ensure they are for proper and valid charges and that the goods and services are procured at the lowest costs.
5. Include bank reconciliations, bank statements and canceled check images in the annual audit of departments that receive or disburse Town funds.<sup>5</sup>

The Supervisor should:

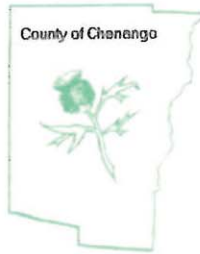
6. Periodically review bank reconciliations, bank statements and canceled check images to ensure there are no cash withdrawals, interfund transfers are deposited into other Town bank accounts and wire transfers and other disbursements are for proper Town purposes.

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<sup>5</sup> See Appendix A of OSC's publication, entitled *Fiscal Oversight Responsibilities of the Governing Board*, at: [http://www.osc.state.ny.us/localgov/pubs/lmg/fiscal\\_oversight.pdf](http://www.osc.state.ny.us/localgov/pubs/lmg/fiscal_oversight.pdf)

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

The local Officials' response to this audit can be found on the following pages.



**TOWN OF MCDONOUGH**  
**COUNTY OF CHENANGO**  
OFFICE OF TOWN CLERK



Arrington J. Canor  
P.O. Box 137  
McDonough, NY 13801  
Telephone: 607-843-9430

Sept, 7, 2017

Office of the State Comptroller  
Division of Local Government  
And School Accountability

Dear Sirs:

Thank you for your insight & help with our towns government and policies.  
We agree with your findings and will do as you have recommended.

The supervisor & town board will require all town purchases to be done at the lowest prices possible & documented as such. We will also insure that the lowest price is of quality material

We will, if elected, change the towns policy on purchases to \$20,000 and public contracts to \$35,000. Also we will advertise for all fuel , gasoline and kerosene prices as recommended.

Loader repairs were to be over \$60,000, instead were approximately \$11,500. Highway town superintendent had loader taken to Binghamton for repairs. When McDonough town board and supervisor received this estimate they replied, "Take it back to the dealer & see what they say" This resulted in thousands of dollars of savings.

Again, Anything over \$20,000 will be bid out. No verbals.

Road maintance products totaling \$12,500 will not need bids if under \$20,000 .

Make sure all factors are considered before accepting County bids (Hauling) etc.

There will be no verbal quotes only written quotes with board approval for these town purchases, also supporting documentation be included with them.

Must have written quotes from other vendors to insure competition & quality.

Must have 3 written quotes (ex- tires) showing quality, specs and prices . Can use OGS or state bids.

Town clerk normally does check bank balances .

Need to audit more often and review website for INFORMATION FOR TOWN OFFICIALS AND SEEKING COMPETITION ON PROCUREMENT.

Need to annually review and update procurement policy.

Make sure competitive bidding and documentation is complied with by all town officials and employees.

Audit claims prior to paying to insure bills are valid and goods procured at lowest possible prices.

Bank reconciliations and statements and cancelled check images be included in the annual audit .

Supervisor to review bank reconciliations , statements & cancelled checks to insure no cash withdrawals , or interfund transfers deposited into proper accounts and all are for town purposes.

In closing we will follow your recommendations . We appreciate your time and effort to help us with the government process for our town.

Sincerely yours,

Arrington J. Canor  
Mcdonough Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed the Town's procurement policy and Board minutes and interviewed Town officials to gain an understanding of the procurement, claims audit and disbursement processes and whether the Board audited or caused to be audited the records of all Town departments that receive or disburse funds.
- We selected all ten purchases totaling \$287,500 requiring competitive bidding and reviewed vouchers and Town and County bid documentation to determine whether the Town acquired goods at the lowest possible cost.
- We reviewed all fuel invoices for the prices paid and compared them to the lowest bidder for 2016 and OGS fuel pricing for 2017 to determine cost savings.
- We reviewed claims packets for all 55 purchases totaling \$108,900 requiring written or verbal quotes, and attempted to review quotes to determine whether the Town acquired goods at the lowest possible cost.
- We tested six purchases totaling approximately \$203,100 and diesel fuel purchased in 2016 totaling approximately \$13,200 to determine whether the Town was charged the correct rates for the materials.
- We reviewed 74 claims (10 randomly selected using a random number generator, 33 judgmentally selected personal reimbursements and all 31 utility bills) totaling approximately \$21,700 to determine whether they were approved by the Board and for proper Town purposes.
- We compared 740 checks in the accounting records to bank statements (totaling approximately \$846,800) to determine whether they agreed.
- We scanned the bank statements to determine whether there were cash withdrawals, interfund transfers were deposited into other Town bank accounts and wire transfers out were for proper purposes.

We conducted this performance audit in accordance with 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.

## APPENDIX C

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