

# Town of Wawarsing

## Financial Oversight of Select Activities

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JUNE 2019

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

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# Report Highlights

## Town of Wawarsing

### Audit Objective

To examine the adequacy of internal controls over selected financial activities to properly account for and safeguard Town funds.

### Key Findings

- The Board did not provide proper oversight to the bidding process, capital project management or the claims audit process.
- The former senior account clerk (account clerk) paid a vendor, who is a relative, a double payment of \$86,154.
- The former account clerk did not reimburse the Town \$499 for healthcare coverage.

### Key Recommendations

The Board should provide stronger oversight by:

- Reviewing and approving proposals, bids, change orders and vendor requests for payment.
- Auditing claims prior to payment.
- Establishing reconciliation procedures.

Officials agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Town of Wawarsing (Town) is located in Ulster County (County). The Town is governed by an elected five-member Town Board (Board) composed of four Board members and a Supervisor. The Board is the legislative body responsible for the general management and control of the Town's financial affairs and provides direction through the adoption of resolutions, policies and procedures.

The Supervisor is the chief fiscal officer whose responsibilities include the receipt, disbursement and custody of Town money; maintaining accounting records; and providing financial reports to the Board. The Town provides various services to its residents.

#### Quick Facts

Population	13,000
2015 General Fund Budget	\$5.3 million
Audit Period Claims	\$13.2 million

### Audit Period

June 1, 2014 – May 31, 2015.  
We extended our scope back to January 1, 2009 to review bidding and procurement related to a specific vendor due to a double payment made to that vendor.

# Financial Oversight

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The Town's outside auditor identified a double payment to a vendor performing a capital project for the Town. The Town Supervisor brought the double payment to the attention of the senior account clerk<sup>1</sup> (account clerk) who resigned due to ongoing tension with the Supervisor. Town officials then requested an audit by the State Comptroller's Office of the Town's finances designed to focus on transactions related to the senior account clerk and also relating to a particular vendor.<sup>2</sup> Due to this request, our audit was focused on the following financial activities: procurement, claims processing, and payroll and healthcare contributions of a particular employee.

## How Does the Board Provide Adequate Financial Oversight?

The Board is responsible for providing adequate oversight of the Town's financial operations. These responsibilities include following bidding and procurement laws, as well as Town policies when procuring goods or services over certain monetary thresholds. In addition, the Board should ensure that disbursements are for legitimate Town purposes through its thorough review and approval of claims.

General Municipal Law (GML) 103 generally requires the Board to solicit bids on contracts for public works involving expenditures of more than \$35,000 and on purchase contracts involving expenditures of more than \$20,000. Exceptions from competitive bidding requirements include a public emergency arising out of an accident or other unforeseen occurrence or condition that may affect the life, health, safety or property of the Town's residents. If a change order is necessary during the course of a public works contract, it must be presented to the Board for approval prior to the start of any additional work.

The claims process should entail a thorough and deliberate examination to determine if the claim is a legal obligation and proper charge against the local government. As a general rule, a claim package should contain enough detail and documentation so that the auditing body or official is supplied with sufficient information to make that determination. As per New York State Town Law, with certain exceptions, all claims must be audited and approved by the Town Board. Certain payments such as fixed salaries and principal or interest payments on debt made be made without the normal audit process. Other payments, such as public utility services and postage, generally may, by Board resolution, be paid in advance of audit. However, these claims should be audited as soon as possible after payment and included on the next abstract as prepaid amounts.

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<sup>1</sup> Due to the resignation of the Town Comptroller prior to the commencement of our audit, the senior account clerk was performing some of the duties of a town comptroller. This included preparing claims for Board approval.

<sup>2</sup> This vendor is regularly hired to perform work for the Town and is the senior account clerk's cousin.

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To properly control and account for payroll and healthcare costs, the Board must provide oversight to ensure that time worked and leave time earned is properly approved, documented, monitored and controlled so employees are paid only those amounts to which they are entitled.

### **The Board Provided Inadequate Oversight of Public Works Projects**

The Board did not provide proper oversight to the bidding process and overall public works projects (projects) as they did not implement procedures to ensure that bids/proposals solicited were complete and evaluated based only on the specifications, change orders were approved and payments made were accurate.

Due to the double payment of \$86,154 made to a vendor who is a relative of the former Clerk,<sup>3</sup> we reviewed the files of the bids awarded to the vendor. The review consisted of awards for eight projects with payments totaling more than \$2 million. Three of the projects were declared emergencies<sup>4</sup> by Town officials, thereby negating the Town's responsibility to follow GML 103. However, the Town did advertise and solicit quotes, although no formal bid specification existed for the projects. The total payments for these three projects were \$368,683. Upon review of the three emergency projects, we found that:

- In an emergency bridge repair project, the vendor gave an alternate proposal along with the original proposal, which was ultimately awarded by the Town. There is no indication in Town records that the other two vendors were given the opportunity to provide an alternate proposal. Had Town officials not accepted the alternate proposal, the vendor in question would not have been the lowest responsible offeror.
- Another emergency repair contract for \$168,914 had change orders for project enhancements and additional work totaling \$26,300, bringing the total project cost to \$195,214, or an increase of 16 percent. There was no evidence that the Board approved these change orders.
- The vendor was paid for the same invoice in the amount of \$86,154 twice in a one-month period. This issue will be discussed in detail in the claims processing section.

Of the eight project files, we found that:

- Six projects did not contain the date and time that the vendor submitted the proposal/bid.
- Two projects, totaling \$117,913, did not contain supporting documentation for payments made.

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<sup>3</sup> Employee left Town service in May 2015.

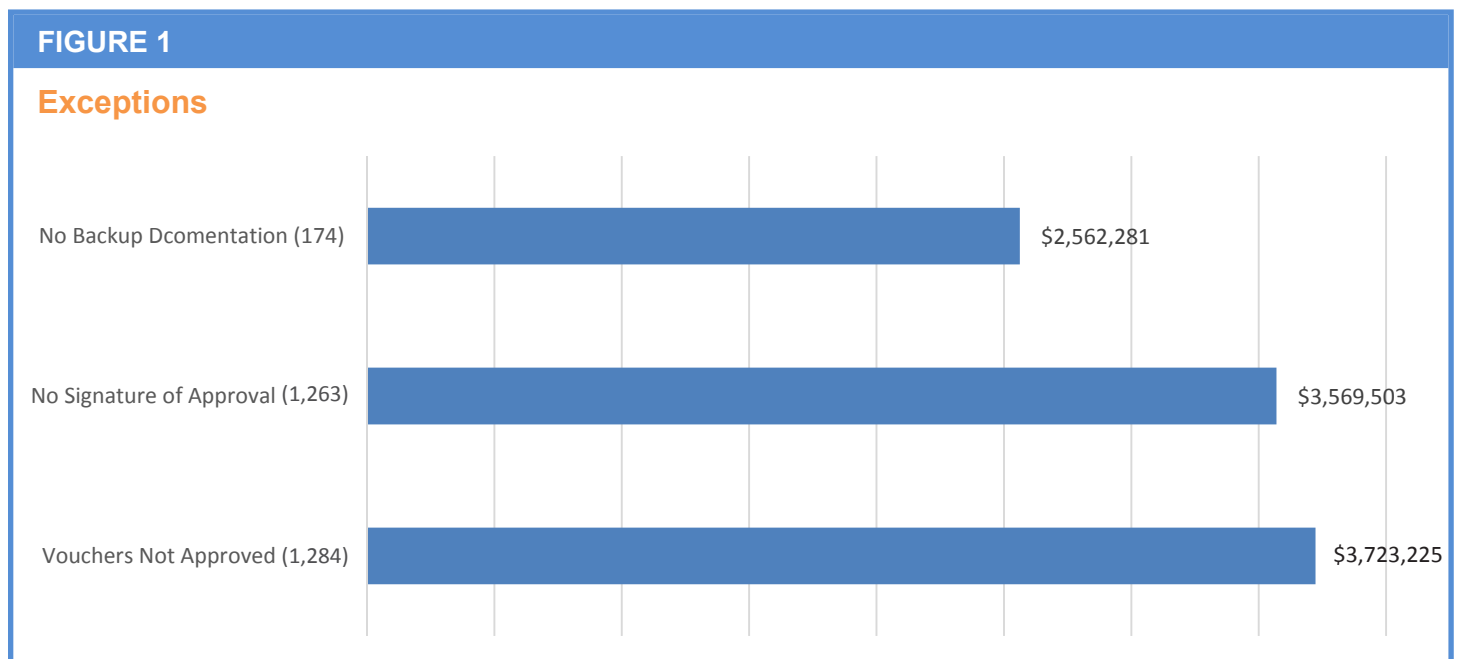
<sup>4</sup> We reviewed these projects to determine if they should not have been declared emergencies and no problems were noted.

- Lastly, there is no record of Board approval for change orders totaling \$28,230 in two of the projects. This includes the \$26,300 previously mentioned.

### Claims Were Paid Without Board Approval and Adequate Support

The Board did not ensure that the claims were properly reviewed prior to payment resulting in disbursements that did not have proper approval or sufficient documentation, and were not complete.

Claims Testing – We tested 100 percent of the claims for the audit period which included 3,565 disbursements totaling \$11,712,745 for validity of charges, proper approvals and adequate support. We found 1,491 exceptions totaling \$6,256,589 (42 percent) (Figure 1). Despite the large number of exceptions, other than the overpayment to the aforementioned vendor, all disbursements appeared to be for legitimate Town purposes.



Warrant Testing – We traced all disbursements to the approved warrant. We found 125 disbursements (3.5 percent) totaling \$4,072,513 were not included on warrants, and thus, not approved by the Board.

Prepaid Testing – The Town prepaid 728 invoices totaling \$4,951,091. The prepaid invoices included health insurance, dental insurance, contractual services and reimbursements to employees. Of these invoices, 140 invoices totaling \$620,125 should not have been prepaid as they included payments

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for IT upgrades, the purchase of security cameras and the refund of Building department fees.

The double payment for \$86,154, discussed previously in the Procurement section of the report, was handled as a prepaid invoice. It is the practice of the Board to approve the payment for bid contracts as an individual item during Board meetings prior to payment execution. There was no evidence provided that the payment application was approved by the Board prior to payment being made. The request for payment was submitted attached to a signed voucher by the vendor on November 17, 2014. Due to the nature of the project funding, the Town must compile payment requests in a schedule and submit it for a drawdown of funds from bond proceeds or other available sources. The Town will receive the funds and then may make disbursements according to the schedule.

There were delays with the drawdown associated with the initial request for payment as evidenced by notes on the voucher made on December 4, December 15 and December 17, 2014. A payment was made in the amount of \$86,164 (\$10 more than on the request) on December 22, 2014 and appears on the prepaid invoice list dated January 15, 2015. The Supervisor approved the voucher on December 23, 2014. The account clerk<sup>5</sup> signed the voucher on January 16, 2015.

On January 22, 2015 (six days after the account clerk signed the first voucher) she prepared and approved another voucher with a different account code for the \$86,154 payment request. The only documentation attached to this voucher was a fax cover sheet from the engineers stating that the payment application can be paid. This voucher was then approved by the Supervisor after payment was made, and the account clerk backdated the check and prepared the voucher with an incorrect account code, making it less likely the double payment would be detected. When Town officials were informed of the double payment by their external auditors, reimbursement was requested of the vendor. The vendor reimbursed the Town on May 18, 2015 almost four months after it received the double payment. Shortly thereafter, the senior account clerk resigned and accepted a position with the vendor.

As a result of the lack of Board oversight, there is a risk that the Town could pay for goods and services that are not for legitimate Town purposes.

### **A Former Employee Did Not Reimburse for Healthcare Coverage**

We examined the healthcare payments for the former senior account clerk. We tested the payments for required healthcare contributions and found that the former senior account clerk did not pay the full amount required by her separation agreement in 2015. The separation agreement stated that, upon leaving Town

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<sup>5</sup> The former account clerk is a relative of the vendor.

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employment, she would be treated as though still an employee in terms of healthcare coverage (required contributions and copay reimbursements) for the remainder of fiscal year 2015. The employee was required to pay \$4,058 in health insurance contributions. Prior to leaving Town service, she had \$1,327 withheld from her paychecks. After leaving Town service, she remitted to the Town via personal check a total of \$2,192. The employee reduced the amount of her final payment by \$140 for copay reimbursement. We could not determine if \$100 of the copays were valid. We found that the employee did not reimburse \$499 to the Town for healthcare coverage when employee withholdings, payments and proper copay reductions are totaled.

The Accounting department operates independently. The Board did not implement procedures to ensure that appropriate reconciliations were performed. As a result, the former employee failed to reimburse the Town \$499 for healthcare coverage.

### **What Do We Recommend?**

The Town Board should:

1. Review all proposals/bids to ensure they are evaluated and awarded based only on the required specifications of the project.
2. Ensure that the bid records for each project are maintained in their entirety.
3. Review and approve all change orders prior to the start of the additional work.
4. Review and approve all request for payments for projects prior to issuing payment.
5. Audit all claims prior to disbursement to ensure that the records are complete and contain sufficient documentation and indicate approval of each voucher.
6. Develop and adopt a list of disbursements that can be paid prior to, or without, audit.
7. Establish procedures to ensure that appropriate reconciliations are performed.
8. Seek reimbursement of unpaid healthcare coverage from former employee.



# Appendix A: Response From Town Officials

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## TOWN OF WAWARSING

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### Councilpersons

Stephen Bradley

Dan Johnson

Roger Buchwalter

Thomas J. Briggs

June 17, 2019

State of New York  
Office of the State Comptroller

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33 Airport Center Drive, Suite 103  
New Windsor, N.Y. 12553

RE: Preliminary Draft Findings – Financial Oversight of Select Activities

Dear ██████████

The Town of Wawarsing would like to thank the NYS Comptroller's office for conducting their audit titled "Financial Oversight of Select Activities" and appreciate the recommendations intended to improve internal controls over these areas. The Town of Wawarsing will submit corrective action plan within the required timeframe.

- 1.Regarding the Financial oversight of select activities, the Town Board will review all proposals/bids to ensure they are evaluated and awarded based only on the required specifications of the project. This will include working closely with the town's engineers, town clerk's office and the accounting office. All records will be maintained and filed in their respective locations according to the New York state laws on retention of records.
- 2.The Town Board will ensure that the bid records for each project are maintained in their entirety, and in the appropriate location.
- 3.The Town Board will review and approve all change orders prior to the start of any additional work
4. The Town Board will review and approve all requests for payment for projects prior to issuing payment.
5. The Town Board will audit all claims prior to disbursement to ensure that the records are complete and contain sufficient documentation and indicate approval of each voucher.
6. The town is compiling a list of disbursements that can be paid prior to, or without, audit.
7. The Town will establish procedures to reconcile capital project payments to ensure that no duplicate payments are made.

*The Town of Wawarsing is an Equal Opportunity Employer*

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8. The Town is requesting payment of the unpaid healthcare coverage from former employee.

If you would need any further information please contact the Supervisor's office at 845-647-6570, Ext.6.

Sincerely,

Terry Houck, Supervisor  
Town of Wawarsing

## Appendix B: Audit Methodology and Standards

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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 reviewed the Town's procurement policy and Board minutes and interviewed Town officials to gain an understanding of the procurement, cash disbursements, claims processing and payroll processes.
- We traced computerized financial records to bank statements to determine accuracy and completeness.
- We reviewed bids to determine if laws applicable to the bidding process were followed. We analyzed all eight projects relating to the proposals/bids awarded to the vendor that received the double payment.
- We performed 100 percent testing of cash disbursements for one year to determine if items were proper and valid Town expenses, the correct amount was paid, proper approvals were given, vouchers had sufficient backup documentation, and prepaid vouchers were valid.
- We compared the Board-approved salary of a former employee to payroll records to determine if the employee was properly paid.
- We tested the healthcare contributions of a former employee to determine if the employee paid the proper amount for required healthcare contributions.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

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

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

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

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

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

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

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