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STATE COMPTROLLER

STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

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ALBANY, NEW YORK 12236

January 18, 2008

Mayor Donald Kasprzak  
Members of the City Council  
City of Plattsburgh  
41 City Hall Place  
Plattsburgh, NY 12901

Report No. P5-07-52

Dear Mayor Kasprzak and Members of the City Council:

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 their compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving operations and City Council governance. Audits can also identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

In accordance with these goals, we conducted a regional audit of eight local governments. The objectives of our audit were to determine whether adequate internal controls over government issued credit cards were in place and operating effectively and whether payments made for meals and travel related expenses were properly authorized and appropriate. More specifically, we addressed the following questions:

- Have local governments established and monitored appropriate internal controls over credit cards issued to their officers and employees?
- Have unauthorized or questionable costs been incurred by local governments making credit card purchases?
- Have local governments incurred questionable costs for administrative expenses such as meals and travel, whether incurred by the use of credit cards or by other means?

We reviewed local government policies and procedures concerning the use of credit cards and examined actual expenditures made with those cards. We also examined claims for meal and travel related expenses that did not involve the use of credit cards. The City of Plattsburgh (City) was included in our audit and our examination of the City's operations was limited to those credit card purchases and meal and travel reimbursements made during the period January 1, 2005 through September 30, 2006.

This report of examination contains our findings and recommendations specific to the City of Plattsburgh. We discussed the findings and recommendations with City officials and considered their

comments in preparing this report. The City's response is attached to this report in Appendix A. At the completion of our audit of the eight local governments, we will prepare a global report that summarizes the significant issues we identified at all of the local governments audited.

## **Summary of Findings**

The City Council (Council) had not implemented internal controls over credit cards issued to employees and local officials. Although the Council adopted a resolution authorizing three general purpose credit cards we found the City had four general purpose, 35 vendor specific and 45 fuel credit cards. The City did not have a policy to provide guidelines for the use of municipal credit cards and had not formally authorized several cards being used by City Departments. The City Chamberlain, the City's chief financial officer, did not have overall custody of the outstanding credit cards. As a result, some department heads applied for credit independently and others used cards that were not issued to them. We reviewed a sample of credit card billing statements and found that several had been paid although they lacked supporting receipts to detail what was purchased. We also noted that a former mayor, Daniel Stewart, routinely made personal charges using a City issued credit card reimbursing the City for those charges he identified as personal. However, there was no system in place to verify the accuracy of the reimbursements and the former Mayor had used his credit card to travel to Albany and New York City without obtaining prior approval from the Council as required by the City's own policy. The claims submitted lacked details of the City business purpose for which the travel and related expenses were incurred.

We also noted that the City had not established sufficient controls over the use of fuel company credit cards by City employees. We identified 42 cards maintained at three gas stations around the City and 3 cards in the custody of City departments. However, we did not find any method in place to verify that all purchases were made by City employees and only for City owned equipment. The City did not reconcile gasoline and fuel receipts to the total amount billed nor did they maintain fuel logs for City equipment to allow for comparisons of gallons purchased to the amounts used. We found the system so inadequate that it would be impossible for the City to determine if all gasoline and fuel purchases during our audit period were for legitimate City business.

## **Background and Methodology**

The use of credit cards is a common practice used by local governments done for the convenience of making purchases over the phone, on-line, or for employee travel costs.

We conducted a phone survey of 43 local governments located in the 10 counties of our region and found that 34 of those surveyed used credit cards to make purchases. The 34 local governments reported approximately \$220,000 in credit card purchases during 2005. Only 6 of the local governments surveyed indicated they had adopted written policies to provide internal controls over the use of credit cards. We selected 8 of the 34 local governments for our on-site audits, representing a mix of different types and sizes of units from within a ten county region.

The City of Plattsburgh had four general purpose cards with a \$14,600 spending limit and 45 fuel charge cards with no established limit in place. The City also had 35 vendor specific cards, 9 with credit limits totaling \$61,000 and 26 with no limits. During our audit period approximately \$412,000 in purchases were made using credit cards, including approximately \$273,000 using the fuel vendor cards. The Council is responsible for establishing internal controls over the use of credit cards and for ensuring that all purchases comply with the City's procurement policy and that the corresponding claims for payment include sufficient documentation to allow for proper audit and approval prior to payment.

We reviewed internal controls over credit cards and obtained our understanding of these internal controls by inquiry, observation, and inspection of documents and records. Our audit included tests of the accounting records and supporting documentation that evidenced how the internal controls over credit card expenditures functioned. Our audit included tests of purchases made with credit cards, and meal and travel reimbursements, to determine if they were for appropriate governmental purposes.

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.

## **Audit Results**

Policies and Procedures - Written policies and procedures are necessary to establish an internal control structure for purposes such as governmental credit card use and authorizing expenses for officers and employees. For credit cards, a Council resolution authorizing their usage along with the adoption of a comprehensive credit card policy provides the framework for an effective control system. The Council's credit card policy should, at a minimum:

- Identify authorized users.
- Set credit limits.
- Establish custody of the cards when not in use.
- Require proper documentation for use.
- Establish a means to recoup unauthorized expenditures.

Written policies should ensure that applicable purchasing laws and statutes as well as Council adopted procurement policies and procedures are followed when purchases are made using a credit card. The Council is responsible for ensuring that an audit of claims is performed prior to payment of bills which would include credit card statements. Requiring documentation detailing the purchases made with those cards and determining they are for legitimate municipal purchases are critical procedures for establishing strong internal controls. Credit cards are often issued by local governments for use by officers and employees for paying reimbursable travel related expenses incurred in the performance of their official duties. A written travel policy is necessary to establish the specific rules and regulations concerning the reimbursement of expenses such as rates for meals and travel and to provide an approval process to ensure that travel related costs are reasonable and for legitimate municipal purchases.

The City Council adopted a resolution authorizing only three general purpose credit cards. However, we found one additional general purpose credit card, 35 vendor specific cards and 45 fuel cards that were in use throughout City departments. The Council had not adopted a comprehensive credit card policy and had not established the custody of the credit cards. The City Council adopted a travel policy which was routinely followed with the exception of travel by the former Mayor. The lack of a credit card policy, no authorization to use certain credit cards and not enforcing the travel policy resulted in the City having weak internal controls over credit cards increasing the possibility that fraud and abuse could occur and go undetected.

Custody and Oversight - The City Chamberlain is the Chief Financial Officer of the City and is responsible for managing all financial transactions for the City with Council oversight. City credit cards should be applied for, monitored and in the custody of the Chamberlain's office to provide strong internal controls over the use of these cards. The Chamberlain lacked custody of City credit cards and his department was unaware that certain cards were applied for and were in possession of City

department heads. Our review of individual departments found that City officials were unaware of the number of credit cards City departments had available for use. There were few, if any controls over the use of credit cards. We noted several instances when cards issued to one department were used by another to make purchases. For example a card issued in the name of the water pollution control plant was used by the engineering department to purchase \$2,127 of copy paper. The Chamberlain's lack of official custody of credit cards increases the risk that unauthorized purchases could be made without detection by management.

To ensure that bills are paid timely and for appropriate City purposes, someone independent from the various City departments should be responsible for matching individual credit card receipts to the charges on the credit card billing statements. The Chamberlain is responsible for overseeing the preparation of claims prior to audit by the Council. However, we found that credit card statements were mailed directly to each department rather than the Chamberlain's office which limited oversight by the Chamberlain and resulted in poor internal controls over the City's credit card purchases. The City paid approximately \$225 in late fees and penalties during our audit period which in all likelihood could have been avoided had the Chamberlain's office received all bills directly. The lack of sufficient oversight over the receipt and payment of credit card bills increases the risk of improper use of cards for other than City purposes.

Review of Claims - The Council is responsible for requiring that sufficient documentation be present to properly audit and approve City claims for payment, including all credit card expenditures. We examined 14 credit card statements during our audit period to determine if the Council's review of claims provided sufficient internal controls to prevent unauthorized or questionable expenditures from occurring. The statements contained 249 individual purchases with only 205 or 82% supported by detailed receipts. For example, the January 2005 and March 2005 statements included 26 charges totaling approximately \$3,390 that were paid without any receipts attached to document what had been purchased. Furthermore, only 131 of the 205 receipts had been signed by the person making the purchase. The failure of City personnel to provide appropriate documentation for such transactions could result in City funds being more susceptible to fraud and abuse. The lack of receipts could result in the Council unknowingly approving payment for something that is not for proper municipal purposes and the absence of signatures prevents the designation of who is responsible for the purchase.

Inappropriate Usage - Local government credit cards should be used for governmental business purposes only and not for personal use. During our review of credit card statements we noted instances when the former Mayor made personal charges using the City credit card and later reimbursed the City based on his own handwritten notations indicating whether the charges were his own or the City's responsibility. There were no audit procedures in place to verify the accuracy of the amounts being noted on the credit card statement as City charges. The lack of adequate documentation precluded us from determining with certainty whether all charges were for appropriate City purposes. Because of the exceptions noted, we reviewed all of the former Mayor's credit card statements covering our audit period which included purchases totaling approximately \$6,300 from January 2005 through February 2006 at which time he had the card cancelled. The Mayor's handwritten notes on the statements indicated that approximately \$1,100 of the charges were for personal purposes and he reimbursed the City for \$1,050 of those.

As noted previously, the lack of documentation made it unclear whether all charges to the City made by the former Mayor were for legitimate City purposes. For example, we noted the purchase of a satellite radio system for \$160 and a dry cleaning bill for \$50 paid by the City. We also noted charges made for overnight travel to New York City with no documentation to support that the travel was for City business purposes and could not verify the accuracy of the allocation of charges paid between the former Mayor and the City. For example, on October 28, 2005 the Mayor charged \$827 for two nights at a New York City hotel which the City paid. Two days later on October 31 the Mayor charged for lodging

at a different hotel in New York City and allocated half of the \$447 charged to the City and personally reimbursed \$223 based on his own handwritten notes. Finally on November 2, 2005 there was a charge for lodging at a third hotel totaling \$548 which was fully reimbursed by the Mayor. Based on the lack of documentation we could not determine if the \$1,051 paid by the City was for authorized City-related business. In addition, the amounts paid included approximately \$123 of State and local sales taxes which the City is exempt from paying. Allowing employees to use City credit cards to pay for personal expenditures exposes the City to possible employee misuse and the risk of not recovering those expenditures.

Travel and Meals - Local governments may expend funds for actual and necessary costs associated with events and related travel where training is provided to local officials and employees. Training costs include items such as registration fees, transportation, meals and lodging. For expenditures to be considered “actual and necessary,” they must be incurred for a lawful municipal purpose, and must not be for an amount greater than necessary. The City has adopted a travel policy and updated this policy from time to time to provide an internal control structure over travel and other administrative expenditures. The policy requires that all travel be pre-approved by the City Council prior to occurrence and that the purpose of the travel as well as a detailed estimate of expenditures be submitted as part of the request for approval. The City has established per diem rates for meals but not for lodging. These policies were not followed in all instances and therefore the internal controls were not functioning effectively as intended.

We examined expenditures for meals and travel incurred during the audit period to determine whether they were for proper municipal purposes and that the reimbursements were reasonable. Travel expenses were paid through the use of the City credit card or by direct reimbursement to employees that had traveled and submitted a claim. In either case, documentation was often insufficient to support a determination that travel costs were appropriate. For example, we reviewed six travel-related claims totaling \$ 8,573 and found two of them totaling \$1,111 had not been approved by the City Council. Fourteen of the 113 expenses totaling \$581 had no receipts to support the claim. Based on hotel room charges, the former mayor made seven overnight trips costing the City \$4,288. Only two of the seven trips totaling \$1,782 were approved by the City Council, one of which was approved two months after the trip took place. The failure of the Council to enforce strong internal controls over meals and travel costs has resulted in City funds being used to pay for certain travel costs which may be not be reasonable or appropriate.

Fuel Cards – Similar to other credit card purchases, the Council is responsible for requiring that sufficient documentation be present to properly audit and approve City claims for fuel purchases made with fuel company credit cards. The City should also have a method of identifying who makes each fuel purchase and the City vehicle using the fuel. A good system of internal controls would utilize an identification system at the fuel station that identifies both the employee and the vehicle. Additionally a vehicle fuel log would be maintained to reconcile the gallons purchased to those used.

The City has a total of 14 credit accounts with a fuel vendor for gasoline and diesel fuel (fuel) purchases throughout the City. These accounts include one primary account in the name of the Department of Public Works and 13 subsidiary accounts in the name of various City Departments and the Plattsburgh City School District. As of the date of our examination there were 42 cards held at three vendor locations throughout the City as well as three individual cards held by City officials and employees to be used when traveling. The total fuel purchases using these 14 accounts during the audit period totaled \$ 272,972. There were a total of 205 active authorized users, 29 of which are not on the City payroll. These 29 were comprised of 13 Plattsburgh Rescue Hose Members and 16 retired city employees. The City had not established internal controls to ensure only authorized users could use the fuel cards nor was there any method to track fuel purchased to City employees or City owned vehicles.

The monthly fuel bills for each of these credit accounts are mailed directly to the corresponding City departments. The summary page of the statement is then supplied to the City Chamberlain's office for payment along with a claim voucher signed by the Department Head. The Chamberlain's office is not supplied with the detail of the individual fuel purchases reconciled to the individual charge receipts. City management indicated the reconciliation of receipts to the billing statement is performed at the department however we found this was not occurring at all City departments and none of the Departments maintained a fuel log to determine if each purchase was for City equipment. Good internal controls require that the reconciliation is performed by someone separate from the person making the purchases. Further good business practices require that a fuel log be kept for each City vehicle allowing for the fuel used by each vehicle to be reconciled to the fuel purchased. Individual receipts would then be used to identify the employee making the purchase. Currently, the City relies on the vendor's employees to ensure that a city vehicle is being fueled for each transaction. The current process used by the City is so inadequate that it would be impossible for City officials to determine if purchases made with fuel credit cards were for City vehicles. The lack of internal controls over fuel cards increases the possibility that a misappropriation of fuel purchased by the City could occur and go undetected.

## **Recommendations**

1. The Council should take an inventory of all credit cards currently in use by City officials and employees and determine if they are necessary. The Council should then adopt a resolution authorizing the use of these credit cards.
2. The Council should adopt a comprehensive credit card policy which:
  - Identifies authorized users
  - Sets credit limits
  - Establishes custody of the cards when not in use
  - Requires proper documentation for use
  - Establishes a means to recoup unauthorized expenditures.
3. The Council should require that all claims for credit card statements and travel reimbursements include sufficient itemization.
4. The Council should pursue reimbursement for any expenditure determined to have been made for other than proper municipal purposes.
5. The Council should ensure that State and local taxes are not paid for City purchases.
6. The Council should enforce the travel and meal policies that establish guidelines for travel and meal costs.
7. The Council should evaluate the fuel cards to determine what accounts are needed and design an internal control structure which:
  - Requires that statements are mailed directly to the City Chamberlain's office
  - Requires statements are reconciled to charge slips from the departments prior to payment
  - Requires fuel logs are maintained for each vehicle
  - Requires fuel logs are reconciled to fuel purchased as documented on the monthly statement for each account

The Council has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, the City Council should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage the Council to make this plan available for public review in the City Clerk's office. See the attached document for additional information on filing a corrective action plan. Our office is available to assist you upon request. If you have any further questions, please contact the Glens Falls regional office at 518-793-0057 or write to us at One Broad Street Plaza, Glens Falls, NY 12801.

Sincerely,

Steven J. Hancox  
Deputy Comptroller  
Division of Local Government  
and School Accountability

cc: Richard Marks, City Chamberlain  
Keith Herkalo, City Clerk

## **APPENDIX A**

### **RESPONSE FROM CITY OFFICIALS**

The City officials' response to this audit can be found on the following pages.



# Plattsburgh, New York

**Donald M. Kasprzak, Mayor**

41 City Hall Place Phone: 518-568-7701  
Plattsburgh, NY 12901 Fax: 518-561-7967  
Email: [mayor@cityofplattsburgh.com](mailto:mayor@cityofplattsburgh.com)

August 6, 2007

████████████████████  
Division of Local Government Services and  
Economic Development  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear ██████████:

The City of Plattsburgh has reviewed the Draft Credit Card Audit Report dated July 19, 2007, which was conducted by The Office of the State Comptroller. The information you provided in the report appears to be thorough and detailed from January 1, 2005 to September 30, 2006. During this time period, your report details findings that identified the lack of internal controls and fiscal oversight, nonexistent written credit card and travel policies and procedures, and personal use of City credit cards.

The City of Plattsburgh accepts your recommendations and will initiate the necessary changes to insure proper use of all credit cards. The City Administration will work closely with the City Chamberlain to implement the Office of the State Comptroller recommendations immediately.

We thank you and your staff for your efforts.

Sincerely,

Donald M. Kasprzak, Mayor  
City of Plattsburgh