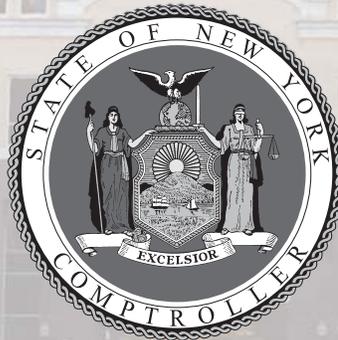




Federal Stimulus Program - Claims Processing Procedures in the Capital Region

2010-MS-7



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2010

Dear Local 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 municipal 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 titled Federal Stimulus Program – Claims Processing Procedures in the Capital Region. 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 General Municipal Law.

This audit’s results 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 American Recovery and Reinvestment Act of 2009 (ARRA) was enacted on February 17, 2009. ARRA, which is informally known as the Federal Stimulus Program, includes measures designed to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need. New York State will receive approximately \$1.12 billion for highway infrastructure projects.

ARRA includes several transparency and accountability standards. One of those standards requires each state to certify that it is using ARRA funds appropriately. ARRA highway funds can be used on a large, defined system of roadways. This generally includes interstate highways, US routes, State routes, and some rural roads and city streets. The funds also can be used on most highway and/or bridge projects on this same system of roadways. In addition, ARRA highway funds may be used for some transit capital projects or transportation enhancement projects.

As of June 2, 2010, Governor Paterson has certified millions of dollars in highway projects statewide. The following table illustrates the regional distribution of ARRA projects.

Region	Total Number of Projects	Total ARRA Amount	Projects Completed
Capital Region	34	\$90.5 million	4
Central New York	10	\$21.4 million	0
Hudson Valley	42	\$83.6 million	0
Long Island	18	\$74.7 million	0
North Country	14	\$18.4 million	1
Rochester Area	37	\$49.8 million	1
Southern Tier	43	\$25.1 million	16
Western NY	27	\$36.5 million	3
Total	225	\$400 million	25

¹ These represent all local projects certified by Governor Paterson as of June 2, 2010, which have been recorded by NYSDOT.

The New York State Department of Transportation (NYSDOT) is the lead agency that will receive ARRA highway infrastructure funds and use them for State projects or distribute them to local governments to fund locally sponsored projects. After Governor Paterson certifies funding for ARRA highway projects, local government officials submit applications that detail the shovel-ready projects to NYSDOT for its review and approval. Upon successful application, local governments enter into contracts with NYSDOT for the project.

Before project work can begin, officials must seek competitive bids and enter into a contract with a vendor to complete the highway-related project. Throughout the project, the local government submits vouchers for reimbursement to NYSDOT. These vouchers include copies of claims from the contracted vendors who have completed work on the approved ARRA highway project and have been paid by the local government.

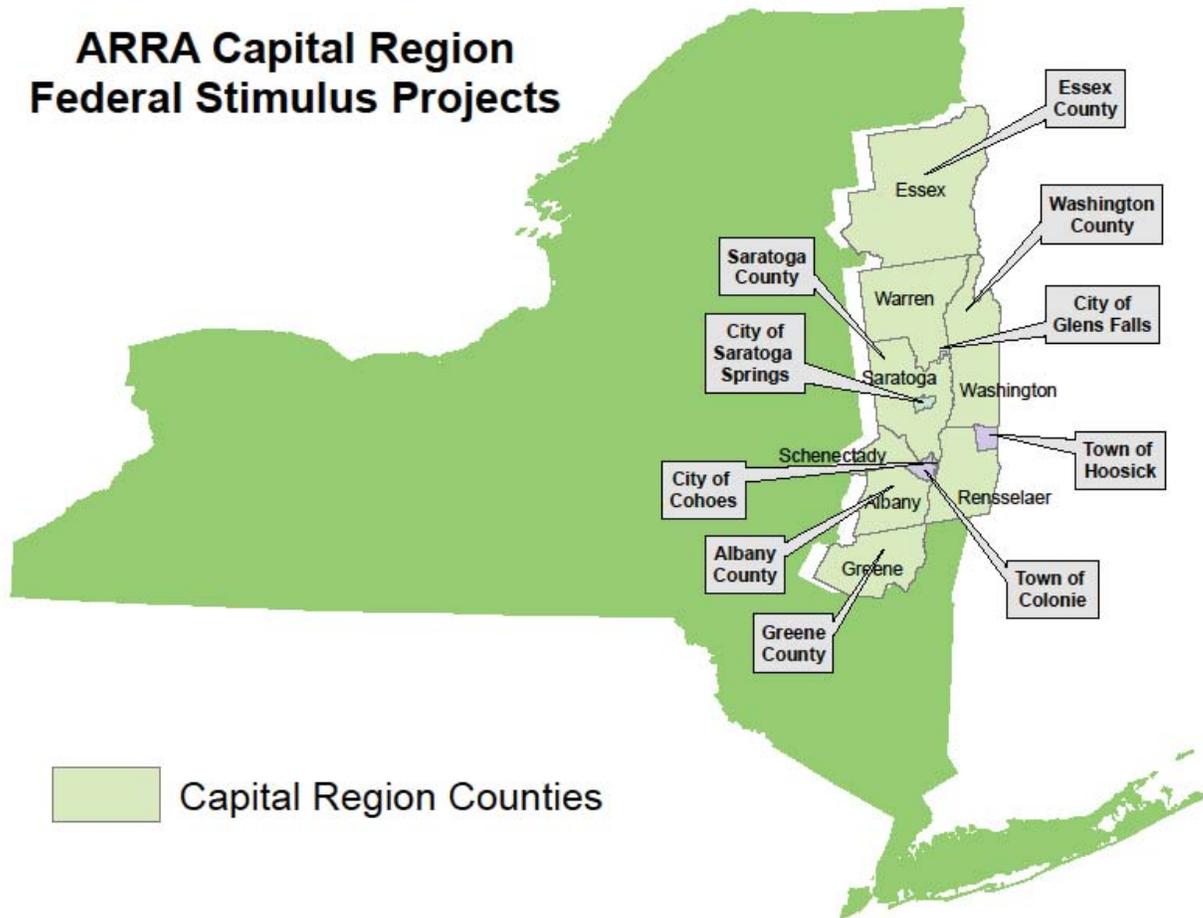
The local government's governing board is generally responsible for the audit of claims. Many governing boards have, where allowable by law, chosen to delegate their responsibility for auditing claims. In these cases, governing boards have established a claims auditor position or a position that has duties that include the claims auditing function. The responsibility for auditing claims can vary depending on the type of government.

To ensure that tax dollars are spent efficiently, it is essential that a thorough, deliberate and independent audit of claims be conducted before payments are authorized. As the ARRA funds are limited, localities cannot afford to overpay vendors or pay for goods and services not received. An effective audit of claims prevents unauthorized, improper, or fraudulent claims from being paid.

The following map illustrates the 10² local governments we selected for audit that have received State reimbursements for their ARRA projects in the Capital Region of New York State.

² See Appendix A for details of each municipality and project details.

ARRA Capital Region Federal Stimulus Projects



Objective

The objective of our audit was to answer the following question:

- Are local governments following sound claims processing procedures when making payments to vendors for contracts funded by Federal Stimulus (ARRA) funds?

Scope and Methodology

We examined the claims auditing procedures and related expenditures for ARRA funded highway projects at 10 municipalities totaling 12 ARRA projects located in the Capital Region for the period March 1, 2009 to June 4, 2010.

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 is included in Appendix D of this report.

Comments of Local Officials

The results of our audit have been discussed with local officials and their comments have been considered in preparing this report.

Claims Processing Procedures

A claim (also known as a voucher) is a demand presented for the payment of money due for goods that have been delivered or services that have been provided. Generally, a claim must be in writing and can be in any reasonable form prescribed by the local government, as long as it is properly itemized and provides all of the information, including supporting documentation, required for audit.³ A voucher or claim package is commonly a combination of original invoices, receiving slips, other relevant documentation and a standard claim form (a cover sheet). This voucher, or claim package, provides consistency in processing and subsequent filing of claims as public records.

The ARRA program requires the highway project to be approved in advance of the start date. With limited taxpayer funding available, it is critical that the local government monitor claims and payments to vendors to assure the public that their funds are being used appropriately and accurately. To do this, governments use the claims audit process to ensure that payments of goods and services are justified and accurate.

We reviewed the claims processing procedures at 10 local governments with 12 ARRA funded highway projects to determine whether governments have employed sound claims processing procedures while making payments for the ARRA funded highway projects. We found that each local government had systems in place and followed adequate claims processing procedures. In addition, with limited exceptions, we found that ARRA payments were made according to contract and project bid specifications, and related expenditures were reasonable, accurate and supported.

Claims Processing Procedures

Conducting a proper audit of claims prior to making payment is an integral part of any internal control system. The audit of claims should include conducting a deliberate and thorough review of each claim to determine whether it represents a valid, legal, and necessary obligation incurred by an authorized official, is in its proper form, is mathematically correct, does not include charges that were previously paid, and complies with all municipal policies and procedures. Local governments should have procedures in place to review ARRA highway project claims.

³ For more information, see the publication entitled, "Local Government Management Guide: Improving the Effectiveness of Your Claims Auditing Process," issued by the Office of the State Comptroller in 2008.

For highway projects, it is common to have a project contractor and consulting engineer. The local government contracts with the consulting engineer to monitor the projects' day-to-day activities and certify that the claims submitted by the project contractors are appropriate for payment. Once the consulting engineer certifies the contractors' invoices, he/she then forwards them to the local governments for payment. The local governments also receive invoices from the consulting engineer for services performed; local officials review these amounts billed against the contracts in place and process payments accordingly.

Although the local governments that we reviewed contracted with a consulting engineer to manage their ARRA funded highway projects, each local government maintained involvement in the project. Generally, the local governments have highway or public works department staff review claims received. The staff then forward the claims to a responsible local official (for example, the local government's engineer) who reviews and approves the claims for payment, and forwards the claims to the responsible official (for example, the local government's treasurer) to make the payments.

We found that each of the 12 ARRA funded highway projects reviewed included a contracted consulting engineer and a project contractor. Local officials at all 10 local governments that we reviewed indicated that an employee periodically visits the project worksite. For example, the City of Cohoes has established a process whereby the City Engineer visits the project work site daily to observe, ask questions and get a project update. The City Engineer and the Director of Economic Development work together to review the accuracy of the claims. The claims are forwarded to the City Comptroller for audit of the claim packet, prior to approval for payment and processing. Once the payment is processed, the City Comptroller receives the check and warrant. A review is conducted and forwarded to the Treasurer's office to mail the check. In addition, a weekly project meeting is held that includes the Contractor, Consultant, City Engineer, Director of Economic Development and Mayor to keep everyone updated on the project's status.

We also reviewed the claims paid by the 10 local governments to determine whether the claims were audited and approved, for the correct purpose, mathematically correct, itemized, for authorized and approved purchases, and met legal and policy requirements. Depending on the type of local government, the claims were audited by the governing body, claims auditor or comptroller's

office prior to payment. We found that all local governments followed adequate claims processing procedures.

Appropriateness of Payments

All of the ARRA funded highway projects consist of the work of contractors and consulting engineers. A contractor bills the local government for goods and services that have been completed according to items listed on the contract bid specification for the project. In addition, the consulting engineer manages the project's day to day operation and bills the local government for the services provided.

We reviewed all 86 claims (52 consulting engineer and 34 contractor) totaling approximately \$14.5 million related to ARRA highway projects. These claims were submitted by 22 vendors for completed consulting engineer services and contractor work. The 52 consulting engineer claims, totaling approximately \$1.4 million, included billings for contract services that consisted of salary items, non-salary expenditures, overhead, and fees depending on the contract and work completed. The 34 contractors' claims, totaling approximately \$13.1 million, were made up of 899 individual project items that corresponded directly to the bid specifications. We compared the individual items and costs billed against the approved project item specifications. The following chart provides details of our review.

ARRA Capital Region Claims Testing					
Local Government	Projects	Vendors Tested	Claims Tested	Items Tested Per Contractor	\$ Value of Claims Tested
City of Cohoes	1	2	11	128	\$2,843,374
Greene County	1	2	10	80	\$1,192,513
Greene County	1	2	5	15	\$267,935
Essex County	1	2	9	37	\$3,109,063
Essex County	1	2	2	13	\$152,179
City of Glens Falls	1	2	8	215	\$1,587,477*
Saratoga County	1	2	4	12	\$312,472
Town of Hoosick	1	2	9	58	\$679,454**
Washington County	1	2	11	50	\$927,380
City of Saratoga Springs	1	2	8	97	\$1,298,106
Town of Colonie	1	1	4	0***	\$139,946
Albany County	1	1	5	194	\$1,961,519
Totals	12	22	86	899	\$14,471,418
*The City of Glens Falls had claims that totaled \$1,000 more than what was submitted for ARRA funds reimbursement.					
**The Town of Hoosick had not requested ARRA fund reimbursement for \$18,679 worth of claims, as of the end of audit fieldwork.					
*** The Town of Colonie handled the consulting engineering portion of the project, thus there are no individual items.					

Overall, we found that, generally, claims paid for highway-related projects were supported, accurate and in accordance with project specifications. However, we found that three of the 10 local governments paid claims totaling \$18,480 that did not match the vendor contract detail and/or authorized project change orders.

We found project consulting engineer claim errors at two local governments, as explained in the following paragraphs.

- Town of Hoosick – One of six claims for consulting engineer services was overbilled and paid by the Town for salaries, resulting in an overpayment of \$17,226. At the beginning of fieldwork, Town officials alerted us to this claim. The New York State Department of Transportation (NYSDOT) identified this error when Town officials requested reimbursement. The vendor attributed the error to a problem in a computer system upgrade and corrected the error on the claims that followed.
- City of Saratoga Springs – The rate billed to the City on the claims was not the rate stated in the contract. The rate billed on the claim was 12 percent, while the contract rate was 11 percent. This resulted in a 1 percent overpayment, or \$1,254. City officials did not identify the percentage difference during their review of the consulting engineer’s claims.

Greene County was the only local government that had errors with the contractor claims. We found minor differences between the claims and the bid specifications for four items. The consulting engineer had identified and corrected these errors on the actual claims. The errors were attributed to data entry errors in the billing system that could not be adjusted. There was no impact on the County, and the amounts paid were proper. However, the County was unaware of the adjustments that the consulting engineer made to the claims and why the errors occurred. It is important that County officials ensure that they adequately communicate with the consulting engineer regarding the importance of documentation to enable the County to conduct an adequate review of claims, if needed.

When claims are subject to a detailed audit prior to payment, the local governments are assured that they are paying for goods and services that are accurate and justified. The procedures used to process the claims for the ARRA funded highway project vendors at each of the local governments provided adequate protection to ensure that items tested matched project specifications and that the local government was receiving the goods and services that it paid for.

Details about these 12 projects can be found in Appendix A.

Recommendation

1. Local officials should ensure accuracy of claims by completing a claims audit prior to payment. This includes comparing the claims to the contract detail to ensure that they are accurate and necessary.

APPENDIX A

ARRA CAPITAL REGION PROJECT DETAILS

Local Government	Project Description	Awarded Vendors (Contractor/Consultant)	ARRA Award	ARRA Spending to Date
Albany County	Maxwell Road and Albany-Shaker Road Intersection*	Rifenburg Construction, Inc. (Contractor Only)	\$5,104,563	\$1,961,519
City of Cohoes	Bridge Avenue Bridge Replacement	ING Civil Inc./ Clough Harbour & Associates, LLC	\$9,175,493	\$2,843,374
Town of Colonie	Maxwell Road and Albany-Shaker Road Intersection**	Foit Albert Associates (Consultant Only)	\$816,637	\$202,277***
Essex County	CR 84 (Blue Ridge Rd) Reconstruction	Peckham Material Corp./Barton & Loguice Associates	\$4,632,100	\$3,109,063
Essex County	Haselton Road Bridge Replacement	Tioga Construction Contractor/ Barton & Loguice Associates	\$1,900,679	\$152,179
City of Glens Falls	Bay Street Reconstruction	Kubricky Construction Corp./Creighton Manning Engineering, LLP	\$2,894,000	\$1,587,477
Greene County	New Baltimore Road Bridge Replacement	Bette & Cring, LLC/Wilbur Smith Associates	\$1,269,000	\$1,192,513
Greene County	CR 28 (Elm Ave) Resurfacing	Peckham Material Corp./ Creighton Manning Engineering, LLP	\$572,000	\$267,935

Local Government	Project Description	Awarded Vendors (Contractor/Consultant)	ARRA Award	ARRA Spending to Date
Town of Hoosick	Caretaker Bridge Replacement	Wm. J. Keller & Sons Construction, Corp./Creighton Manning Engineering, LLP	\$1,346,156	\$660,775
Saratoga County	CR 108 (Dunning St) Resurfacing	DelSignore Blacktop Paving, Inc./Greeman-Pedersen, Inc.	\$312,472	\$312,472
City of Saratoga Springs	Church Street Reconstruction	DelSignore Blacktop Paving, Inc./Creighton Manning Engineering, LLP	\$2,884,070	\$1,298,106
Washington County	Clinton St, Saunders St, & Division St Bridge Replacement	Harrison & Burrowes Bridge Constructors/ Clough Harbour & Associates, LLC	\$4,645,516	\$927,380
Totals			\$35,552,686	\$14,515,070
* The Maxwell Road Project is a joint project between Albany County and the Town of Colonie. Albany County is responsible for the costs associated with the Contractor work.				
** The Maxwell Road Project is a joint project between Albany County and the Town of Colonie. Town of Colonie is responsible for the costs associated with the Consultant work.				
*** NYSDOT doubled the reimbursement of two vouchers to the Town of Colonie. Town officials stated that future reimbursement payments will be adjusted per the conversation with NYSDOT.				

APPENDIX B

RESPONSES FROM LOCAL OFFICIALS

We provided a draft copy of this global report to all 10 local governments included in this audit and gave all of them the opportunity to respond to it. Only three municipalities, Greene County and the cities of Glens Falls and Saratoga Springs, chose to do so. Their responses can be found on the following pages.



August 5, 2010

**Office of the
County Administrator**

411 Main Street
Suite 408
Catskill, New York 12414

Daniel Frank
Interim Administrator

Ms. Ann Singer, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Re: Recent Federal Stimulus Claims Audit

Dear Ms. Singer:

This letter is written in response to the draft audit referenced above.

On page 10 of that report, there are references to minor differences in the unit cost of four contract items. Please be aware that [REDACTED], our engineering consultants, discovered and were fully aware of the unit differences. Apparently the contractor transposed several numbers when writing them into the APPIA software provided by DOT.

The software would not allow the contractor to go back and correct it. Accordingly, our engineers and consultants made the only corrections they could to insure that the proper amount was paid.

I hope this clears up any confusion regarding the mismatched numbers. I trust that you will correct the report accordingly.

See Note 1
Page 17

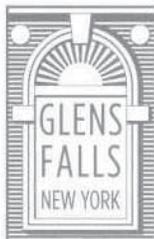
Very truly yours,

DANIEL FRANK,
Interim County Administrator

DF/lid

c.c: Gary Harvey, Highway Superintendent





July 26, 2010

Ms. Ann Singer
Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Ms. Singer:

The City of Glens Falls appreciates the opportunity to respond to the Audit findings on your recent examination of the "Federal Stimulus Program-Claims Processing Procedures in the Capital region."

Your finding that claims totaled \$1,000 more than what was submitted for ARRA funds reimbursement was an oversight and we will make sure in the future every submission is double checked.

Thank you for your professionalism in completing this audit.

Sincerely,

A handwritten signature in cursive script that reads "S. Kasitch".

Susanne Kasitch
City Controller



City of Saratoga Springs
OFFICE OF COMMISSIONER OF FINANCE

KENNETH IVINS, JR.
COMMISSIONER OF FINANCE

474 Broadway - City Hall
Saratoga Springs, New York 12866-2296
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KATE M. JAROSH
Deputy Commissioner

CHRISTINE A. GILMETT-BROWN
Director of Finance

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Receiver of Taxes

LINDA J. CURLEY
Benefits Administrator

FLORENCE C. WHEELER
Payroll Administrator

CITY OF SARATOGA SPRINGS
RESPONSE TO FEDERAL STIMULUS PROGRAM - CLAIMS PROCESSING
PROCEDURES IN THE CAPITAL REGION
2010-MS-7

Upon notification of the overpayment on the Church Street Project, the City contacted the contractor to ascertain why the error occurred and to have it corrected. The contractor admitted to an inadvertent billing error to the City a rate of 1%, it was corrected for future billings, and an adjustment was made on the first invoice to the City following notification to correct the \$1,254 overbilling.

The City has improved the already present audit process to ensure accuracy of all details being billed by the contractor.

Dated: July 30, 2010

APPENDIX C

OSC'S COMMENT ON THE LOCAL OFFICIALS' RESPONSES

Note 1

We revised our report to include this additional information provided by the County.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

We reviewed the claims processing procedures used by 10 local governments for ARRA funded highway projects in the Capital Region⁴ and interviewed applicable local officials to obtain an understanding of that process. We reviewed selected municipalities' ARRA Federal Stimulus highway projects for claims processing. Specifically, we reviewed invoices, claims packets, project specifications and disbursements. We reviewed each invoice to verify that each item was billed in accordance with bid specifications and that the local governments were paying for the items and quantities required by contract.

Our testing included tracing the items detailed in the claim for item description, quantity per claim, total cumulative quantity per project, and pricing of each item from the bid specifications to determine accuracy. We traced the consultant claims detail to the contract detail for categories such as salary rates per hour by job title, mileage rates, inspection testing, non-salary expenditures, and percentages used in calculating overhead and fees.

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.

⁴ NYSDOT defines the following counties as the Capital Region: Albany, Essex, Greene, Rensselaer, Saratoga, Schenectady, Warren, and Washington.

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