

March 18, 2025

Via Electronic Mail

Matthew Fortier
Town Administrator
Town of Orange
6 Prospect Street
Orange, MA 01364
townadministrator@townoforange.org

Thomas Smith
Chair
Town of Orange Select Board
6 Prospect Street
Orange, MA 01364
selectmantomsmith@townoforange.org

Re: Town of Orange Credit Card Internal Controls

Dear Mr. Fortier and Chair Smith:

After receiving a complaint in December 2022, the Office of the Inspector General (OIG) reviewed the town of Orange's (town) use of a town credit card that was in the name of a former town administrator.¹ While the OIG's review of the period from June 2019 through April 2023 did not find improper spending, the OIG found that the town lacked formal policies and procedures regarding credit card use by employees. The OIG also found that the town did not reconcile its credit card payments with the credit card statements, a control weakness that resulted in overpayments to the account. In some instances, the failure to reconcile caused the town to pay sales tax on purchases, contrary to the municipal exemption provided by state law. The OIG offers several recommendations herein for the town to implement.

Background

In June 2005, the town established a credit card account. According to witnesses, the bank stated that the town could not open the credit card in the town's name because the account had to be linked to a Social Security number. As a result, between 2005 and 2023, the town credit card was in the name of either the town accountant or the town administrator.

¹ The former town administrator, who retired in March 2023, also held the position of town treasurer. All references herein to the former town administrator refer to that administrator in their dual role as town administrator and town treasurer.

Between 2018 and 2023, the former town administrator had sole control of the credit card. When making purchases for the town using the town's credit card, the administrator would provide the invoice or receipt to the former town accountant and note that the payment had to be made to the town credit card.²

The former town administrator did not provide copies of the credit card statements to the town accountant or any other town employee. The town administrator told the OIG that they destroyed the statements.³

After the former town administrator retired in March 2023, the town stopped using the credit card.⁴ In June 2023, the town established a new credit card account in the town's name that is not linked to a Social Security number.

Findings

Finding 1: The town did not have formal policies regarding use of the town credit card.

The OIG requested that the town provide its policies and procedures related to (1) credit card use by employees, and (2) opening bank and credit card accounts. The town responded that no credit card policies or procedures were in place. The OIG understands that the current town treasurer has been working on creating a credit card policy for the town. As of the date of this letter, the OIG has not received a copy of such a policy, notwithstanding the fact that the town has at least one active credit card account.

Finding 2: The town has vulnerabilities in its accounts payable procedures, as evidenced by its failure to reconcile its credit card payments with the credit card statements.

The town's practice of writing checks for purchases based on handwritten notations on receipts renders its accounts payable procedures vulnerable to mistakes, payments delays, late fees, or interest charges. The process is also susceptible to fraud. Further, the former town accountant's inability to reconcile the town's credit card payments with the credit card statements is problematic. The town accountant never reviewed the credit card statements to ensure that the invoices or receipts matched the amounts due. As described below, on numerous occasions this process resulted in the town issuing overpayments to the credit card company, missteps likely caused by a receipt wrongly noted as a charge to the credit card. Both the former town administrator and the former town accountant acknowledged to OIG investigators that those

² All references to the town accountant in this letter refer to the town's former town accountant who has since retired.

³ For its review, the OIG obtained the town's credit card statements through a summons to the issuing bank. As stated previously, the OIG's review of statements for the period of June 2019 through April 2023 did not reveal any improper spending.

⁴ Although information is unclear on whether the account was closed upon the former town administrator's retirement, the OIG notes that proper controls would have dictated the card's cancellation.

overpayments would have been avoided if the town accountant had the credit card statements available to reconcile the town's payments. Although it did not occur during the OIG's review period, the practice of paying the card without a statement reconciliation could mask improper credit card purchases.

Finding 3: The town's failure to reconcile its credit card payments with the credit card statements resulted in the town overpaying the account and paying sales tax in some instances.

All payments to the town credit card between August 2020 and January 2022 were made by the town.⁵ Credit card records showed that the town overpaid the account several times during this period. One such instance in January 2022 resulted in an overpayment of \$7,532.90. According to the former town administrator, this mistake resulted from the town accountant not having the credit card statements to verify the payment.

Some overpayments resulted in the town paying sales tax, contrary to the exemption provided under state law.⁶ For example, on June 3, 2021, the former town administrator used the credit card to purchase two air conditioners at a local retailer. According to the receipt submitted to the town accountant for payment, the town administrator paid \$711.85 (\$669.98 plus \$41.87 sales tax) for the air conditioners. Town records indicate that the town issued a check to the credit card company for the cost of the air conditioners less sales tax. The town ultimately paid the \$41.87 improper credit card charge for sales tax on June 28, 2021.⁷ Again, this error would have been avoided if internal policies and controls required the town accountant to reconcile the payment with the credit card records directly.

The OIG also compared the town's accounts payable records and supporting documentation with the town's credit card statements. The OIG found discrepancies between the town's records and the credit card records. For example, in numerous instances the town's accounts payable records indicated that the town made a payment to the credit card company; however, the town had no record of the check, and the credit card company had no record of receiving the check. The former town administrator told investigators that the town may have issued checks to the credit card company in error, and those checks were voided with new checks issued to the correct vendor. These errors resulted in the town administrator issuing numerous

⁵ All payments to the town credit card during the OIG's review period from June 2019 through April 2023 were made by the town, except for two payments made by town employees in 2019 and two payments made by the town administrator in 2019. The town stopped issuing payments directly to the credit card in July 2022. Between July 2022 and February 2023, the town administrator issued five payments directly to the credit card and was reimbursed by the town.

⁶ Municipalities are exempt from paying sales tax. M.G.L. c. 64H, § 6(d). There are several methods of claiming the sales tax exemption, such as providing a tax exempt certificate at the point of sale.

⁷ The OIG notes that in the absence of other action, "short paying," or simply not paying the sales tax on a purchase, does not absolve the town from owing the amounts it charged to the credit card.

manual checks that were neither approved by the Select Board nor recorded in the town's accounts payable software. Finally, the OIG found examples of handwritten checks from the town's payroll account to the credit card company. The former town administrator could not explain why the town issued the handwritten checks. These procedures lack clear oversight and reconciliation processes and are troubling.

While the OIG did not find fraud in its investigation, it is very clear to see how inconsistent procedures and lax oversight create an environment ripe for fraud.

Recommendations

Based on its investigative findings, the OIG recommends that the town implement the following remedial measures:

1. Conduct an audit of all credit card accounts used by the town, whether the accounts are in the town's name or in the name of a current or former employee;
2. Discontinue use of any credit cards connected to an individual's Social Security number;
3. Create formal town policies concerning the opening and closing of bank and credit card accounts, ensuring that those accounts reflect the town's tax exempt status;
4. Create formal town policies concerning credit card use by employees;
5. Stop using any active town credit card accounts until a written policy is in place;
6. Create and maintain a complete list of town credit card accounts and authorized users. The list should be held by the town treasurer and town auditor and updated when changes occur but no less than annually;
7. Strengthen accounts payable procedures and controls;
8. Ensure proper reconciliation of all accounts payable by reviewing invoices and related credit card statements. Reconciliation should be conducted by someone other than the purchaser and the credit card holder;
9. Ensure that all checks are properly recorded in a check register, that payroll checks are used only for payroll, and that voided checks are appropriately noted; and
10. Implement appropriate offboarding procedures for departing employees who have account access, including a process to notify banks and credit card companies of the change in authorization.

Conclusion

In closing, the town of Orange is fortunate that its ill-defined accounts payable process and lax oversight of town credit card expenditures did not result in misappropriated funds. Implementing rigorous policies on reconciliations and credit card use will assist the town in being an effective, transparent steward of public resources and protect the public treasury from improper use.

Within 30 days of receiving this letter, please notify this office in writing of your plans to implement the recommendations herein or of any actions already taken. Please also provide this office with the town's credit card policy once implemented.

If you have any questions about the OIG's review or recommendations, please contact George Xenakis, director of the OIG's Audit, Oversight and Investigations Division, at 617-722-8853 or at George.Xenakis@mass.gov.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J S Shapiro', is positioned above the printed name.

Jeffrey S. Shapiro, Esq., CIG
Inspector General

cc (by email):

Julie Davis, Vice Chair, Town of Orange Select Board
Andrew Smith, Clerk, Town of Orange Select Board
Jane Peirce, Town of Orange Select Board
Michael Bates, Town of Orange Select Board
Amber Dupell, Town Accountant, Town of Orange
Amber Robidoux, Town Treasurer, Town of Orange
Eugenia M. Carris, General Counsel, OIG
George A. Xenakis, Director, Audit, Oversight and Investigations Division, OIG
Nataliya Urciuoli, Senior Executive Assistant, OIG