



Village of Amityville

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

June 1, 2009 — November 30, 2010

2011M-280



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2012

Dear Village 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 Village 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 Village of Amityville, entitled Internal Controls Over Selected Financial Activities. 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 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Amityville (Village) is located in the Town of Babylon, on the south shore of Suffolk County, and has a population of approximately 9,400. The Village Board of Trustees (Board) serves as the legislative body and is comprised of four elected trustees and an elected Mayor.

The Village provides its residents with services that include police and fire protection, highway and public works, a Justice Court, cultural and recreational activities, and building code enforcement. These services are funded primarily by property taxes, payments in lieu of taxes, State aid, Federal grants, and user charges. The Village's general and capital fund expenditures totaled about \$17.4 million for the 2009-10 fiscal year.

Scope and Objective

The objective of our audit was to examine the Village's financial operations and internal controls over selected financial activities for the period June 1, 2009 to November 30, 2010. We expanded our scope from May 31, 2005 to May 31, 2011 to examine capital projects and financial condition, because we considered it necessary to meet our audit objective. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets, routinely monitor financial condition, and take appropriate actions to maintain the Village's financial stability?
- Are internal controls over capital projects appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over purchasing appropriately designed and operating effectively to safeguard Village assets?

Audit Results

The Board has not adopted realistic budgets, does not routinely monitor the budget, and has not taken appropriate actions to maintain the Village's financial stability. For the 2008-09 and 2009-10 fiscal years, the Village overspent appropriations resulting in a decline in the Village's general fund balance from \$1,880,880 at May 31, 2008 to a deficit of \$603,888 at May 31, 2010, or by a total of \$2,484,768. Furthermore, the Board has not developed a comprehensive plan to address the deficit.

In addition, the Board did not properly authorize or monitor capital projects and did not ensure that each capital project's financial records contain sufficient information to detect and prevent cost overruns. Consequently, the Village borrowed more than \$450,000 from the general fund to finance various projects, the Board did not formally authorize three out of the four capital projects we reviewed, with expenditures totaling \$679,238, and the expenditures for the four projects exceeded contract amounts by \$122,420.

Finally, internal controls over purchasing are not appropriately designed or operating effectively to safeguard Village assets. The Village has not appointed a purchasing agent as required by its policy, the Village has not developed policies or procedures for the use of competition when procuring professional services, and the Board has not adopted policies authorizing the issuance of credit cards or governing their use. This resulted in Village officials not obtaining quotes for certain goods and services; the Village paying three professionals a total of \$58,138 without the use of a competitive process; and Village officials making purchases on the Village's credit cards that circumvented the purchasing process.¹

Comments of Local Officials

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Village officials generally agreed with our findings and recommendations and indicated that they will take corrective action. Appendix B includes our comment on an issue raised in the Village's response letter.

¹ The credit card purchases we reviewed appeared to be valid Village expenses.

Introduction

Background

The Village of Amityville (Village) is located in the Town of Babylon, on the south shore of Suffolk County, has a population of approximately 9,400 and encompasses approximately 2.5 square miles. The Village Board of Trustees (Board) serves as the legislative body and is comprised of four elected trustees and an elected Mayor. The Board is responsible for adopting and making any substantive changes to the budget.

The Mayor is the Board's presiding officer, the Village's chief executive and the budget officer. The Treasurer is the Village's chief fiscal officer and is responsible for collecting, disbursing and investing Village funds. The Clerk is responsible for maintaining custody of the Village's books, records, papers and the Village seal as well as all of the Board's official communications. The Clerk is also responsible for maintaining the capital project records.

The Village has approximately 110 employees and provides services that include police and fire protection, highway and public works, a Justice Court, cultural and recreational activities, and building code enforcement. These services are funded primarily by property taxes, payments in lieu of taxes, State aid and Federal grants, and user charges. The Village's general and capital fund expenditures totaled about \$17.4 million for the 2009-10 fiscal year.

Objective

The objective of our audit was to examine the Village's financial operations and internal controls over selected financial activities. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets, routinely monitor financial condition, and take appropriate actions to maintain the Village's financial stability?
- Are internal controls over capital projects appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over purchasing appropriately designed and operating effectively to safeguard Village assets?

Scope and Methodology

We examined the Village's financial operations and internal controls over selected financial activities for the period June 1, 2009 to November 30, 2010. We expanded our scope from May 31, 2005 to May 31, 2011 to examine capital projects and financial condition, because we considered it necessary to meet our audit objective.

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 C of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Village officials generally agreed with our findings and recommendations and indicated that they will take corrective action. Appendix B includes our comment on an issue raised in the Village's response letter.

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 the 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 Village Board to make this plan available for public review in the Village Clerk's office.

Financial Condition

A local government's financial condition reflects its ability to provide and finance services on a continuing basis. This includes generating sufficient recurring revenues to finance recurring expenditures and provide necessary services, while maintaining sufficient cash flow to pay bills and other obligations when due. The Budget Officer is responsible for providing the Board with realistic budgets in the proper form and with the information necessary to determine if budget estimates are reasonable. If certain expenditures are expected to exceed their budgeted appropriations, it may become necessary to modify the budget. In these instances, modifications should be proposed for Board approval, prior to the occurrence of over-expenditures. The Board is responsible for providing fiscal oversight, monitoring fiscal health and making decisions based on results and outcomes. In the event a local government experiences fiscal stress, good financial management practices dictate that it develop a plan to address it on both a short-term and long-term basis.

To develop the Village's annual operating budget, department heads provide the Treasurer with expenditure estimates for the ensuing year. Together with the Mayor, the Treasurer prepares the tentative budget and presents it to the Board for adoption. Throughout the fiscal year, the Treasurer provides the Board with monthly reports which include the status of the balances in each appropriation account.

The Village has experienced deteriorating financial condition resulting from the Board's decisions when developing and adopting annual operating budgets and their failure to appropriately monitor financial operations. In addition, the Board has not developed a comprehensive plan to address the operating deficit. During the 2008-09 and 2009-10 fiscal years, the general fund had operating deficits totaling nearly \$2.5 million.

Fund Balance

A key measure of financial condition is the level of fund balance, which represents resources remaining from prior fiscal years. The unreserved, undesignated amount is the available portion of fund balance that can be used to manage unexpected costs or unanticipated shortfalls in estimated revenues. Inadequate unreserved, undesignated fund balance limits the Village's ability to manage emergencies and other unanticipated occurrences. Ensuring that fund balance levels remain adequate requires that the Board not only adopt reasonable budgets but also monitor the budget throughout the fiscal year.

During the 2008-09 and 2009-10 fiscal years, the Village consistently overspent appropriations. This occurred mainly due to poor budgeting

practices and a lack of budgetary monitoring. As a result, the Village's unreserved, undesignated fund balance has declined from \$1,880,880 at May 31, 2008 to a deficit of \$603,888 at May 31, 2010 or by a total of \$2,484,768. This weakening of the Village's financial condition put the Village into fiscal stress, as there is no available fund balance to manage unexpected occurrences.

Budgeting Practices — It is important for the Budget Officer to present the Board with realistic budgets for adoption. Revenue projections should be based on reasonable estimates of revenue that will be realized during the budget year. In order to ensure that spending estimates are reasonable, the Board should budget sufficient increases in appropriations when provided with historical or empirical data that suggests a budget line is experiencing increased costs.

We reviewed the results of operations of the Village's general fund for the 2008-09 and 2009-10 fiscal years and found that the Village had operating deficits totaling nearly \$2.5 million over the two-year period. While the adopted budget for 2008-09 included a planned operating deficit of about \$547,000, the actual deficit for the year was \$1.8 million. The Village's operating deficit for 2009-10 was over \$677,000. These deficits resulted in the reduction of fund balance from nearly \$1.9 million on May 31, 2008 to an accumulated deficit of over \$603,000 on May 31, 2010.

This decline in fund balance was due primarily to the Board adopting budgets that consistently underestimated expenditures. During the 2008-09 and 2009-10 fiscal years, 91 and 98 of 284 appropriations respectively were underestimated.

We reviewed eight overexpended appropriations² from the 2008-09 fiscal year. The Mayor and Treasurer did not reasonably estimate expenses for these eight appropriation accounts, contributing \$1,181,064 to the operating deficit for the year. For example, the Village consistently underestimated road construction expenditures. The Treasurer indicated that she budgets the same amount, year after year, irrespective of year-end expenditures because she feels she can not predict what amount the Village will spend in this area each year. The Village budgeted only \$150,000 each year for road improvements while actual costs were \$181,054 and \$184,246. In 2010-11 the Village again budgeted \$150,000 for these costs and reportedly spent \$256,906. The Mayor and Treasurer are again estimating \$150,000 in expenditures for road construction in 2011-12, despite the previous three years expenditures.

² We selected the two appropriations with the largest variances between the budget amount and the actual expenditures in each of the fiscal years (2008-09 and 2009-10) and the six appropriations with the largest variances in 2008-09 that also had variances in 2009-10 fiscal year.

We also reviewed eight overexpended appropriations³ from the 2009-10 fiscal year. The Village did not reasonably estimate all eight of these budget lines contributing \$2,416,590⁴ to the 2009-10 operating deficit. For example, the Mayor and Treasurer consistently underestimated expenditures for Fire Department vehicle repairs and maintenance despite the fact that, according to the Treasurer, the Department had an aging fleet requiring increased maintenance costs. In both fiscal years 2008-09 and 2009-10, only \$65,000 was appropriated for vehicle repairs and maintenance, yet the costs incurred were \$112,780 and \$110,547 respectively.

The Village increased appropriations in the 2010-11 budget to \$90,000 for vehicle maintenance and repairs, and incurred actual expenditures of \$98,475. However, only \$62,000 was appropriated for 2011-12, despite incurring Fire Department vehicle maintenance and repairs ranging from \$98,475 to \$112,780 the previous three years.

As a result of poor budgeting practices, the Village has experienced significant unplanned operating deficits for the 2008-09 and 2009-10 fiscal years. These operating deficits have eliminated all of the Village's unreserved general fund balance.

Budget Monitoring — It is essential for the Board and Village officials to monitor actual results against budgeted revenues and expenditures to ensure that appropriations are not overspent and that budgeted revenues are sufficient to maintain services at acceptable levels. In certain instances, it may become necessary to transfer budget funds to cover the cost of specific expenditures that are expected to exceed their budgeted appropriations. Village Law requires that the Budget Officer propose, and the Board approve, budget modifications prior to the occurrence of overexpenditures to ensure there are sufficient appropriations to cover the expenditures as they happen.

The Board did not effectively monitor ongoing expenditures against budgetary appropriations. The Board did not ensure that the Budget Officer proposed budget modifications for their approval prior to the expenditures going over budgeted appropriations. This allowed expenditures to occur without adequate appropriations. The Treasurer provides the Board with monthly general fund financial reports. These reports contain revenue and appropriation status reports that show adopted budget amounts, revenues and expenditures for

³ We selected the two appropriations with the largest variances between the budget amount and the actual expenditures in each of the fiscal years (2008-09 and 2009-10) and the six appropriations with the largest variances in 2008-09 that also had variances in the 2009-10 fiscal year.

⁴ Overspent appropriations are higher than the deficit amount due to additional revenues collected during the year.

the month, year-to-date revenue receipts and expenditures paid, percentage of revenue received or appropriation used, budgeted amount still available and the prior year's year-to-date revenues and expenditures for the same period. In addition, these financial reports contain a year-to-date balance sheet and a calculation of general fund balance at the date of the balance sheet. Although the Treasurer provides these monthly reports, Board members are not reviewing appropriations to determine whether they are being overspent during the year. Board members told us that they rely on the Treasurer to prevent appropriations from being overspent. As a result, the Village over-spent 91 of 284 appropriations in the 2008-09 fiscal year and 98 of 284 appropriations in the 2009-10 fiscal year.

We reviewed 16 overexpended appropriations,⁵ eight in 2008-09 and eight in 2009-10. One of the eight 2008-09 appropriations had a budget modification totaling \$450,000 which was made without any Board approval. For the remaining seven appropriations, the Board waited between 40 and 383 days to approve budget modifications totaling \$721,279. As of May 31, 2009, all eight appropriations remained overspent by \$1,181,064.

In 2009-10, the Board waited between 96 and 375 days to approve budget modifications to the eight appropriations reviewed. On May 31, 2010, prior to the budget modifications, seven of eight appropriations remained overspent by a total of \$1,719,688. For example, the vehicle repair and maintenance appropriation was budgeted for \$65,000 for the 2009-10 fiscal year. On November 5, 2009, the appropriation went over budget and the Board did not act to modify and increase this appropriation. Instead, they continued to spend from this budget line for the remainder of the fiscal year, spending \$45,547 more than was appropriated. On September 13, 2010, three and a half months after the close of the fiscal year, the Board approved a budget modification, transferring balances from other appropriations to this one.

Inadequate budget monitoring has forced a reliance on retroactive budgetary modifications. Budget modifications conducted after year end serve no budgetary control purpose and mask the overexpenditures that were allowed to occur during the year.

Capital Fund — Also contributing to the decline in the general fund balance is the lack of internal controls over capital projects (see the Capital Projects section). Beginning in May 2005, in anticipation of other funding sources, the Village financed various capital projects with \$450,000 from the general fund and recorded a receivable (due

⁵ We selected and reviewed all single year appropriations with a negative variance greater than \$150,000. We also selected and reviewed all appropriations with a negative variance greater than \$30,000 spanning both 2008-09 and 2009-10.

from the capital fund) in the general fund account. However, in fiscal year 2008-09, the Treasurer determined that the obligation would never be realized through grants or other funding. At the direction of the Mayor, and without Board approval, the Treasurer wrote-off the obligation, transferring a portion of the capital fund deficit to the general fund.

Comprehensive Plan — Good financial management practice dictates that when a local government experiences or is approaching fiscal stress, it should develop a written comprehensive plan to address the fiscal stress on both a short-term and long-term basis. An effective plan includes actions such as increasing sources of revenue or reducing the level of services, adopting structurally balanced budgets with realistic estimates of available fund balance, conservatively estimating revenues, and keeping expenditures within budgetary appropriations.

The Board has not developed a comprehensive plan to address the Village's operating deficit and to provide direction and leadership on resolving the declining fund balance in the general fund. The failure of the Board to develop such a financial plan may lead to further deterioration of the fund balances and greater financial stress to the Village.

Form and Content of the Budget

The form and content of the tentative budget should provide the Board with the information needed to determine if budget estimates are reasonable. In order for the Village's budget to be a useful tool to the Board, it must contain sufficient information regarding the Village's annual financial plan. This information allows for the tentative budget to be evaluated in light of the prior year's results of operations and the current year's budget. Village Law specifies that the tentative budget should contain, in parallel columns, the actual revenues and expenditures for the last completed fiscal year, a schedule of current year revenues and appropriations reflecting revenue modifications and supplemental appropriations to a date not more than 45 days prior to the filing of the tentative budget with the Village Clerk, a schedule of fund balance estimated to be on hand at the close of the current fiscal year, and detailed schedule of wages and salaries.

The budget officer has not provided the Board with a complete tentative budget in accordance with Village Law. The tentative budgets provided to the Board for both 2009-10 and 2010-11 did not contain a detailed schedule of modified appropriations within 45 days of the tentative budget. Only a schedule of the original adopted budget appropriations was included. In addition, the tentative budgets for both 2009-10 and 2010-11 did not include a schedule of fund balances estimated to be on hand at the close of the current fiscal year and a detailed schedule of wages and salaries. Furthermore, the

tentative budget for 2010-11 did not contain, in columnar form, the previous year's actual revenues and expenditures.

Without a complete tentative budget, as outlined under Village Law, the Board does not have the information necessary to adopt reasonable budgets. The combined effect of these conditions, incomplete tentative budgets, ineffective budgeting and monitoring, and a lack of controls over capital projects, have contributed to the Village sustaining operating deficits of nearly \$2.5 million⁶ over a two-year period. Furthermore, without a long-term plan to effectively reduce the deficits in the general fund, the Village is at an increased risk of not being able to provide essential services.

Recommendations

1. The Board should ensure that revenue and expenditure estimates included in the annual budgets are accurate and derived from proper budgeting methods.
2. The Board should ensure that the Budget Officer propose budget modifications for their approval prior to the occurrence of overexpenditures.
3. The Board should develop a comprehensive plan to address the declining fiscal health of the Village and to eliminate the deficit in the general fund.
4. The Budget Officer should prepare tentative budgets that comply with Village Law.

⁶ The adopted budget for 2008-09 included a planned operating deficit of about \$547,000, but the actual deficit for the year was \$1.8 million.

Capital Projects

The purpose of a capital project fund is to account for all of the financial activity related to the acquisition or construction of major capital assets. The Board and Village officials are responsible for establishing procedures to properly authorize, finance and monitor the status of individual capital projects. The Board is responsible for setting spending limits when authorizing capital projects. Adequate recordkeeping and monitoring is essential to ensure that projects are completed within the adopted budget and that funding sources are in accordance with the approved plan of financing. Periodic reports to the Board that compare expenditures for each capital project to the related budget ensure that funds are available for expenditures and that expenditures do not exceed the amounts authorized by the Board. Where cost overruns are anticipated, the Board must act to control spending or modify the budget.

The Village finances its capital projects through borrowings, grants, and other sources of revenue. During the audit period, the Village undertook seven capital projects. We found that Village officials did not properly plan for and manage capital projects. We reviewed four projects⁷ with expenditures totaling \$1,964,842, and found that the Board did not properly authorize projects, nor did they effectively monitor them. As a result, the Village had to borrow more than \$450,000 from the general fund to finance various projects, had over \$679,000 in unauthorized expenditures and experienced cost overruns in three of the four projects reviewed totaling \$122,420.

Project Authorizations — In order to maintain control over capital project expenditures, the Board must adopt resolutions authorizing each project at its inception. The authorization should include the specific object or purpose of the project, a statement of the maximum estimated cost (budget) of each project, a determination of the probable period of usefulness, and the anticipated sources of funding. The capital budget should include a detailed account of corresponding revenues. This allows local officials to assess the strength of revenue streams that support capital projects and to evaluate budget constraints stemming from any revenue shortfalls.

We reviewed four capital projects undertaken during the audit period with expenditures totaling \$1,964,842 and found that the Board did not properly authorize three of the four projects. These

⁷ With the projects listed in alphabetical order, we chose to review two open and two closed projects. We chose the 1st and 3rd project in each category.

three projects had unauthorized expenditures totaling \$679,238. While the Board did discuss these projects at Board meetings, and in some instances passed resolutions approving funding sources and construction contracts, they did not authorize these projects in advance of these actions. Village officials had no explanation as to why some projects are authorized while others are not. One project that was not authorized, for decorative street lighting along Montauk Highway, was to be partially funded by grants provided by the New York State Department of Transportation and Suffolk County. Funds were originally pledged in October 2006, but as of June 7, 2011, had not been received. Nevertheless, in April 2007, before the Board authorized the project, the Village began planning for the installation of the light fixtures and spent over \$258,000 on the first phase of the \$900,000 project. The Village financed the project by borrowing from the general fund. Had the Board properly authorized the project, including having a capital budget, the Village may have avoided borrowing from the general fund.

Between May 31, 2005 and May 31, 2008, the Village borrowed over \$450,000 from the general fund⁸ to finance various capital projects that exceeded the available funding sources. At the end of the 2008-09 fiscal year, the Village wrote off the \$450,000 due to the general fund after determining funding from other sources would not be realized. Unless the Village receives the anticipated grant monies for the Montauk Highway Lighting project or identifies an alternative financing source, which seems unlikely, the Village may need to write-off an additional \$258,000 due to the general fund.

Commencing capital projects prior to securing financing creates the risk that money may not be available when required for necessary expenditures. In addition, failure to authorize each project with the maximum amount of expenditure creates the risk that Village officials will spend money on projects that the Board did not intend to allocate and therefore may not be available when required for other necessary expenditures.

Accounting Records — Complete and accurate accounting records for capital projects are necessary for proper financial reporting and monitoring. Maintenance of individual capital project records assists officials in monitoring the status of each project and provides the Board with the information necessary to ensure that expenditures are within the amounts authorized and funding sources are used in accordance with the approved plan of financing. The Treasurer is responsible for keeping financial records for each capital project that

⁸ This \$450,000 does not include the \$258,000 spent on the Montauk Highway Lighting project.

contain sufficient information to document the project's complete financial history and establish accountability for resources provided for a particular purpose.

The Village does not have adequate recordkeeping procedures to account for and monitor project revenues and expenditures. The Treasurer records project expenditures in the capital fund with a unique account code for each individual project; however, separate revenue records by source and date are not recorded by project, which would allow separate balance sheets, trial balances, and ledgers for each authorization (project) to be generated and used for project monitoring. In addition, the individual capital project accounts are closed out at the end of each fiscal year rather than maintaining running balances which would permit reports to be generated detailing revenues and expenditures over the life of multi-year projects. As a result, the Board is not able to readily monitor projects and prevent expenditures from exceeding authorized limits.

Project Monitoring — Capital projects need to be monitored to track progress and expenses. Effective monitoring can help ensure that a project is progressing as expected and within budgeted limits. Village officials are expected to monitor the expenditures for each project to ensure that the authorizations will not be exceeded. Failure to limit expenditures to available authorizations creates the risk that money may not be available when required for necessary expenditures. In the event that the costs of a capital project will be exceeded, the Board should be notified immediately so that it can authorize additional funds, as needed.

Village officials are not adequately monitoring capital projects. Each capital project is assigned to a Board member who is responsible for monitoring the project and reporting its progress to the Board. However, without project authorizations and without appropriate recordkeeping, Board members can not effectively monitor capital projects. Village officials told us that the Board receives information about capital projects in the Treasurer's monthly reports. However, the Treasurer's reports only include a trial balance and appropriation status report for the general fund. These reports do not provide summary information for each individual project, which is necessary to effectively monitor capital projects. Without proper monitoring, the Board cannot be assured that the work performed meets their expectations or was performed within the original budgetary constraints.

As a result, Village officials were not able to prevent expenditures from exceeding the cash available for each individual project. All four projects we tested had actual expenditures that exceeded identified

funding sources by a total of \$91,196. For example, the Montauk Highway Lighting project discussed above had identified funding sources of \$234,000 but actual expenditures of \$258,810. Therefore, even if all identified funding is realized, the project budget, and therefore the capital fund, will still be in a deficit of \$24,810.

Project Overruns — On any capital project, there is the risk that actual costs will exceed the original Board authorization. Village officials should take all available steps to ensure that this risk is mitigated. Where cost overruns are anticipated, the Board and Village officials must act to control spending or modify the budget by increasing authorizations. If the cost of the maximum Board approved contract amount increases, Village officials should prepare change orders and have these change orders approved by the Board to cover the additional contract costs prior to expending the funds.

Although the Board did not authorize three of the four projects we tested, they did properly approve vendor contracts for the projects, providing a second opportunity to ensure actual costs would not exceed amounts set aside to fund each project. Nevertheless, all four projects we reviewed had costs exceeding approved contract amounts by a total of \$122,420. For example, while the Board did not authorize the construction of a building for the Department of Public Works, it did approve contracts to the three vendors that worked on the project totaling \$314,500. Despite these contract limitations, the Village paid invoices to these vendors totaling \$369,862, resulting in project overruns totaling \$55,362, without approving change orders to increase approved contractual amounts or authorizations.

Failure to ensure that the Board is aware of possible project overruns creates the risk that the Board will fail to amend an authorization and that a project will exceed the Board's intended cost.

Recommendations

5. The Board should adopt resolutions authorizing the maximum estimated cost of each project at its inception. Each resolution (authorization) should contain a statement that describes, in brief and general terms sufficient for reasonable identification, the project's specific object or purpose, estimated maximum cost, period of probable usefulness, and anticipated sources of funding.
6. The Board should ensure that Village Officials account for each project individually by establishing a separate account to monitor each project's complete financial history.
7. The Board should require periodic capital expenditure reports showing the authorization for each project, expenditures and encumbrances to date, and available authorizations.

8. The Board should review capital project expenditure reports and, if necessary, authorize change orders to increase authorizations before they are overexpended.

Purchasing

An effective system of internal control consists of policies, practices and procedures that provide reasonable assurance that the Village is using its resources effectively and that it is complying with applicable laws and regulations. The Board must establish, implement, and monitor procurement policies to help ensure that the Village obtains services, materials, supplies or equipment of the desired quality, and specified quantity, and at the lowest price in compliance with applicable Board and legal requirements.

The Village's purchasing policy requires the pre-approval of purchases by one or more Board members, that only the purchasing agent commit the Village to a purchase, that personnel acquire and document verbal or written quotes, and that all required documentation be forwarded to the purchasing agent for review prior to payment of claims.

The Board, however, has not appointed a purchasing agent and Village officials have not developed appropriate procedures or internal controls over the purchasing process. As a result, the Village's purchasing practices are not being applied consistently. Village officials did not obtain quotes for certain goods and services; the Village paid three professionals a total of \$58,138 without the use of a competitive process; and Village officials made purchases using the Village's credit cards that circumvented the purchasing process.

Requisitions and Purchase Orders

A properly functioning purchase order system can help control expenditures by ensuring that purchases are properly authorized and pre-approved, and that adequate funds are available. The purchase order (PO) also serves as a cross-reference to the vendor's invoice and is the source document for Village claims entered into the accounting system. A confirming PO refers to a purchase order issued after the goods or services have already been ordered or received. The use of confirming POs should be strictly controlled and limited to emergency purchases because such purchases circumvent the approval and price verification features of the normal purchasing process. Confirming purchase orders should be marked as such, and should include an explanation of the circumstances that required ordering outside the standard purchase order system.

The Village's purchasing policy requires the use of POs (vouchers) and that only the purchasing agent may commit the Village for a purchase. It is the responsibility of the purchasing agent to assure that all purchase requisitions have the proper approvals as required by the Board prior to placing an order. Additionally, no claim should be paid

unless all receiving documents, including receipts and delivery slips submitted by the vendor and signed by the individual receiving the goods or services, are forwarded to the purchasing agent. The policy also requires all purchases over \$600, not part of a blanket purchase and not deemed an emergency, have a completed requisition form with the appropriate approval attached. A Trustee must approve all purchases between \$600 and \$1,500, and purchases between \$1,500 and \$10,000 must be approved by the entire Board.

The Village has not appointed a purchasing agent, as required by Board policy, to enforce the provisions of the Village's purchasing policy outlined above. As a result, personnel do not use requisitions prior to ordering goods and services, and purchase orders are not being prepared until after the goods or services have been received (confirming PO). In addition, purchases are being made without the required approval of a Trustee or the Board.

We randomly selected and reviewed 18 payments⁹, totaling \$48,466, from the Village's disbursement records. Village personnel did not use the required requisition form for any of the 18 purchases. However, three of the 18 purchases did have a memo drafted by the requisitioner submitted to the Board for approval. One of the 18 POs, totaling \$1,110, did not include dates and therefore we were unable to determine if it conformed to the Village guidelines. Sixteen of the remaining 17 POs, totaling \$44,820, were confirming POs. In addition, 14 of the remaining 17 purchases, totaling \$33,400, were not approved by a Trustee or the Board in advance of the purchase, as required by the purchasing policy. For example, the Department of Public Works contracted for dock repair work for \$8,600. Village personnel did not use a requisition form, the purchase was not pre-approved by the Board, and the PO was confirming because it was dated June 1, 2010, the same date as the invoice.

When purchase orders are processed after an order has been placed or goods or services have been received, there is an increased risk that inappropriate purchases will be made. Furthermore, without a centralized purchasing agent, the Board cannot be assured its purchasing policies are being followed, and the Village's ability to prevent unauthorized purchases is limited, which could result in excessive costs being incurred. There is also no verification that budget appropriations are available prior to the order being placed, increasing the risk that adequate funds may not be available.

⁹ We randomly selected 18 purchases from the population of all purchases between \$600 and \$10,000 made during the audit period.

Quotes

The Village's adopted procurement policy requires all purchases between \$600 and \$10,000 to be procured using either written or verbal quotes, depending on the dollar amount of the purchase, and requires that Village personnel maintain adequate documentation of the actions taken. For purchases between \$600 and \$3,000, three verbal quotes are required, and for purchases between \$3,000 and \$10,000, three written quotes are required.

Village personnel are not adhering to the Village's procurement policy requiring they obtain and document verbal or written quotes before purchasing goods or services between \$600 and \$10,000. We randomly selected 18 payments totaling \$48,466 for goods or services between \$600 and \$10,000 to determine if the required quotes were obtained prior to the purchases being made. Village staff did not obtain any quotes prior to the purchases being made for these 18 payments. For example, the Village paid \$9,500 to rent a truck. Village personnel did not obtain any of the required three written quotes for this purchase.

Since Village personnel are not obtaining and documenting verbal or written quotes, as required by the Village's purchasing policy, Village officials cannot be assured that they are obtaining the best quality of goods and services at the most reasonable cost to the taxpayers.

Professional Services

Competitive bidding is generally not required for the procurement of professional services which involve specialized skill, training and expertise; use of professional judgment or discretion; and/or a high degree of creativity. However, General Municipal Law (GML) requires Villages to adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. A request for proposal process is an effective way to ensure that the Village receives the desired service for the best price.

The Village's purchasing policy does not establish procedures for procuring professional services. Village policy merely states that services requiring special or technical skills, training or expertise need not be competitively bid. We selected¹⁰ five professional service providers¹¹ with payments during our audit period totaling \$96,018, and found that three providers with payments totaling \$58,138 were procured without the use of a competitive process. The Village procured computer network services with payments totaling \$14,000

¹⁰ Using a random number generator, we randomly selected five professional service providers from a list of all 12 providers paid a total of \$890,256 during the audit period.

¹¹ Professional service providers included computer network services, accounting and audit services, court reporting services, bonding services, and consulting services.

during the audit period, based solely on a recommendation of one of the Trustees, court reporting services totaling \$28,000 from an agency that was selected from a list used by the Town of Hempstead, and \$16,138 for bond services from a company recommended by several other Villages.

In the absence of a comprehensive policy that adheres to GML and specific procedures that require seeking competition for procuring professional services, Village officials may not be obtaining these services at the most favorable terms and in the best interest of Village taxpayers.

Credit Cards

Local governments commonly use credit cards for the convenience of making purchases over the phone, on-line, or to pay employee travel costs. A Board resolution authorizing the use and purpose of credit cards, the number of credit cards, and the credit limits for each card, along with the adoption of a comprehensive credit card policy, provides an initial framework for an effective internal control system over municipal credit card use. It is important that the policy identify the individuals who are authorized to use the credit card, provide dollar limits for purchases, describe the types of purchases allowed and the documentation required to support the purchases, and establish control procedures over the custody of the credit card and the monitoring of its use. Also, credit cards should not be used to circumvent the normal purchasing process. Adequate controls over the use of Village credit cards are required to prevent unnecessary and improper payments.

The Board has not authorized the issuance of credit cards nor have they adopted policies governing the use of Village credit cards by employees. However, the Village has nine store specific purchase cards with two different vendors and seven bank credit cards. During the audit period, the Village made purchases totaling \$61,470 using these credit cards.

We selected eight credit card claims¹² containing 85 purchases totaling \$14,727 to determine if credit card purchases were for Village business. All 85 credit card purchases we reviewed appeared to be for valid Village expenses. However, two of the 85 purchases, totaling \$3,037, required quotes, but the requisitioner did not obtain them. For example, Village personnel made an online purchase for lighting in the amount of \$2,338 using a Village credit card. The requisitioner of this

¹² From the population of all payments to credit card vendors during the audit period, we randomly selected four payments to bank credit cards and two from each of the store specific purchase cards. Each payment represents the claim for a particular monthly credit card statement containing all purchases made on the account during that period.

purchase did not obtain and document the required quotes, nor was the purchase approved by a Board member as required. In addition, eight of the 85 purchases totaling \$552 were made by an employee other than the card holder. For example, a \$43 purchase of gasoline was made using a credit card issued in the name of a department head. Our review of the supporting documentation identified the name of another Village employee within the same department on the receipt. Village credit cards should not be used by anyone other than the individual to whom the card was issued.

Without ensuring that credit cards are authorized or that the proper use of credit cards is defined by policies and procedures, the Village increases the risk that it will pay for items that are not authorized, are excessive or are unrelated to Village business. Moreover, without any specific policies in place, the Village may have difficulty collecting reimbursement for any unauthorized or questionable purchases.

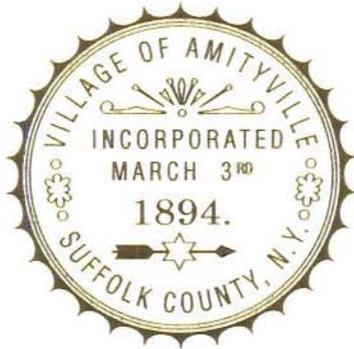
Recommendations

9. The Board should appoint a purchasing agent to ensure compliance with the Board's purchasing policy.
10. Village officials should ensure that requisitions and purchase orders are prepared and approved in advance of any purchase and limit the use of confirming purchase orders to emergency situations.
11. Village officials should ensure that personnel adhere to guidelines set forth in the purchasing policy regarding quotes.
12. Village officials should develop a competitive process to procure professional services in the most prudent and economical manner.
13. The Board should adopt comprehensive policies and procedures to govern the use of credit cards and review and update the policy annually. The credit card policy should identify all authorized users, set appropriate credit limits, establish custody of the cards when not in use, require proper documentation for all transactions, and establish a means to recoup any unauthorized expenditures.
14. The Board should formally authorize the acquisition and use of any credit card for official Village business.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.



**OFFICE OF THE MAYOR
INCORPORATED VILLAGE OF AMITYVILLE
PETER T. IMBERT**

March 22nd 2012

Office of the State Comptroller
Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Hwy
Hauppauge, NY 11788-5533

Dear Mr. McCracken:

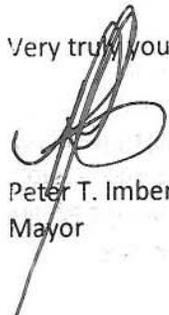
First and foremost, in response to the finding of unrealistic budgets and maintaining the Village's financial stability, the Village of Amityville has taken an aggressive budgeting posture due to the worst economic period since the Great Depression. Our financial decisions have been intentional and designed to keep the residents in their homes as opposed to driven out by high taxes merely to build up a fund balance surplus. Village government has chosen to keep taxes as low as possible while maintaining services. The audit period is a finite view of activity that did not include subsequent events that have had a direct effect on the fund balance in a positive way.

See
Note 1
Page 25

This audit has not shown any illegitimate Village expenses nor missing funds. The Village is and has been current on all debt obligations as well as its general expenses. Procedural and policy changes have been implemented and monitored to ensure an increased level of internal control.

The Village will continue to adopt aggressive budgets during these difficult economic times. This will in no way jeopardize the financial stability of the Village or the services we provide.

Very truly yours,



Peter T. Imbert
Mayor

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

Our audit examined the Village's capital projects and financial condition during six fiscal years, and reviewed the budget for the 2011-12 fiscal year. During our fieldwork, Village officials provided us with neither a comprehensive plan that would address the fiscal health of the Village and eliminate the deficit in the general fund, nor any documentation supporting any subsequent events.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. We interviewed and performed inquiry sessions with key Village personnel that included the Mayor, Trustees, Treasurer, Deputy Treasurer, auditor, Clerk, Information Technology Consultant, and various other key members of Village departments.

We assessed whether the Village's internal controls were properly designed and implemented through observations, record inspections, record testing and reading other audit reports. The internal control reviews included financial operations, capital projects, cash management, payroll & personnel services, information technology, purchasing, claims processing, and real property taxes. With respect to these areas we included the effects that the various departments have over these processes. These departments included Village Clerk, Justice Court, fire department, police department, building and code enforcement department, department of public works, and tax receiver/assessor. Further planning procedures included financial trends and ratio analysis.

After completing these planning procedures, we felt that the areas of financial operations, capital projects and purchasing had the most risk as they relate to legal and regulatory compliance, financial condition, fraud, and abuse. Discussed below are the specific data, and testing that was done with respect to each of these areas.

- Reviewing applicable laws and regulations for compliance
- Testing Board-approved policies for compliance
- Analyzing historical budget vs. actual reports
- Analyzing historical financial statement trends including balance sheets, revenues, expenditures, debt sources, and uses
- Further inquiry with Village officials such as Trustees
- Inspecting capital project records for proper authorizations and evidence of project monitoring
- Inspecting capital project records such as bank records and general ledger histories
- Inspecting Board approvals and authorizations for purchases
- Testing payments made to vendors with contracts, Board authorizations, and the purchasing policy
- Testing credit card transactions for support and proper authorizations.

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.

APPENDIX D

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