



Village of Manorhaven

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

June 1, 2009 — October 31, 2010

2011M-236



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 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 Manorhaven, entitled Internal Controls Over Selected Financial Operations. 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 Manorhaven (Village) is located in the Town of North Hempstead, in Nassau County. The Village comprises an area of less than one square mile with a population of approximately 6,500 people. The Village provides residents with refuse collection, street maintenance, fire protection, and Justice Court services.

The Village is governed by the Board of Trustees (Board) which comprises four elected Trustees and the Mayor. The Board is responsible for the general oversight of the Village's operations. The Village Clerk-Treasurer (Clerk-Treasurer) is the Village's chief fiscal officer and is responsible for the Village's day-to-day operations. The Village also operates a Justice Court (Court) with one Justice and an Acting Justice.

Village expenditures are funded primarily from real property taxes, State aid, and Court fines and forfeitures. General fund operating expenditures for fiscal year end May 31, 2010 were \$3.4 million.

Scope and Objective

The objective of our audit was to examine internal controls over selected financial operations for the period June 1, 2009 to October 31, 2010. We extended our scope to January 31, 2011 for the Court to cover transactions that occurred under the newly appointed Court clerk. The scope of our audit related to procurement was limited to the extent that we did not receive a response to our request for disclosure of interest in contracts with the Village from Mr. Patrick Brostowin, a member of the Board. Our audit addressed the following related questions:

- Did the Board establish adequate internal controls over the payroll process and are these controls operating effectively?
- Did the Board provide adequate oversight over its credit card expenditures and solicitation of professional service providers?
- Are internal controls over information technology appropriately designed and operating effectively?
- Are internal controls over Justice Court funds appropriately designed and operating effectively?

Audit Results

The Village's internal controls over payroll processing were not properly designed and not operating effectively. We found that employees did not maintain individual timesheets and that management or a Village official did not provide approval of the hours recorded onto the weekly timesheet prior to employees being paid. Additionally, the Board has not established a policy to guide the overtime process. We found discrepancies between the timesheet and the payroll register in 41 of 126 instances tested.

We also found that the Village did not obtain competition when procuring the services of seven of the eight professional services providers who were paid approximately \$155,000 during our audit period. Additionally, we found that the Village has not adequately implemented internal controls over the audit, processing, and payment of credit card claims, which resulted in payments being made without receipts supporting the charges, totaling \$10,022.

In addition, Village officials had not adopted comprehensive IT policies and procedures regarding acceptable use standards for computer use, remote access, breach notification and disaster recovery. The Village also did not adopt a formal disaster recovery plan. As a result, Village IT resources, systems, and electronic data are subject to increased risk of unauthorized access, manipulation, theft, and loss or destruction of sensitive data. In addition, the Village does not have a plan in place to notify those who may be affected by a potential breach of their personal information and the Village would likely not be able to maintain or quickly resume critical functions in the event of a disaster.

Finally, internal controls over the Court operations were not properly designed or operating effectively to properly account for Village assets. The Justices did not ensure that the Court clerk deposits money collected in a timely manner or prepares monthly bank reconciliations and accountability analyses. As a result, deposits were made up to 43 days late and errors in credit card deposits went unnoticed. For example, a total of \$980 collected from credit card payments in July and August 2010 was incorrectly deposited by the credit card merchant in another village's justice court bank account. Court personnel only learned of the missing money when notified by the other village's justice court. As a result of these weaknesses, Court assets are at risk of loss or abuse.

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. Village officials generally agreed with our recommendations and indicated they planned to take corrective action.

Introduction

Background

The Village of Manorhaven (Village) is located in the Town of North Hempstead, in Nassau County. The Village comprises an area of less than one square mile with a population of approximately 6,500 people. The Village provides residents with refuse collection, street maintenance, fire protection, and a Village Court.

The Board, which comprises four elected Trustees and the Mayor, is responsible for the general oversight of the Village's operations. The Village Clerk-Treasurer (Clerk-Treasurer) is the Village's chief fiscal officer and carries out all Village administrative functions including financial operations. The Board is responsible for auditing claims against the Village prior to making payment. The Village also operates a Justice Court (Court) with one Justice, an Acting Justice and a Court clerk whose duties include collecting, recording and depositing money received through the Court.

Village expenditures are funded primarily from real property taxes, State aid, and Court fines and forfeitures. General fund operating expenditures for fiscal year end May 31, 2010 were \$3.4 million.

Objective

The objective of our audit was to examine internal controls over selected financial operations for the period June 1, 2009 to October 31, 2010. We extended our scope to January 31, 2011 for the Court to cover transactions that occurred under the newly appointed Court clerk. Our audit addressed the following related questions:

- Did the Board establish adequate internal controls over the payroll process and are these controls operating effectively?
- Did the Board provide adequate oversight over its credit card expenditures and solicitation of professional service providers?
- Are internal controls over information technology appropriately designed and operating effectively?
- Are internal controls over Justice Court funds appropriately designed and operating effectively?

Scope and Methodology

We examined internal controls relating to selected financial operations for the period June 1, 2009 to October 31, 2010. Certain information technology vulnerabilities are not discussed in this report, but were communicated confidentially to Village officials so they could take corrective action.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). We extended our scope to January 31, 2011 for the Court to cover the period for the newly appointed Court clerk. The scope of our audit related to procurement was limited to the extent that we did not receive a response to our request for disclosure of interest in contracts with the Village from Mr. Patrick Brostowin, a member of the Board. More information on such standards and the methodology used in performing this audit are included in Appendix B 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. Village officials generally agreed with our recommendations and indicated they planned to take corrective action.

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

Payroll

The Board and Village officials must establish operational policies and written procedures to ensure the Village pays employees the compensation and benefits they are entitled to receive under the terms of their collective bargaining agreements or any other documents that set forth entitlement to these payments. An important component of an internal control system over payroll is the certification that employees included in the payroll have regularly performed their duties. It is important to have a timekeeping system that ensures that employees are accurately paid for time worked. The absence of adequate controls over timekeeping leaves a payroll system susceptible to error, abuse and fraud. Another component of internal controls is to ensure that all overtime payments to employees are pre-approved and properly documented and that all leave records are properly maintained.

The Village's internal controls over payroll processing were neither properly designed nor operating effectively. The Village has poorly designed time records. The Board has not established a policy or procedure to guide the overtime process. In addition, we found discrepancies among the timesheets, payroll records and leave accruals records. As a result, errors and irregularities may have occurred in the payroll records and have gone undetected.

Time Records

Properly designed and maintained individual time records are an important element of good payroll internal controls. Proper authorization is essential when processing employee time records and requires that the person approving payment receives some documentation that confirms the individual actually provided the service. Therefore, it is important that the employees and their supervisors sign employee timesheets to certify that the recorded time is correct and reflects the actual time worked on the job. Timesheets should contain the information necessary to account for an employee's entire workday, including overtime and leave charges. Erroneous or incomplete entries and omissions on time records can result in errors in pay and leave accruals. In addition, according to Village Law, all payrolls or other claims for compensation for personal services must be certified by the Village officer or employee having direct supervision of the person making the claim. Employees should not be paid for future services.

Board adopted policies and procedures do not require that all employees maintain a timesheet to be signed by their supervisor, and do not require Village management to maintain adequate time and attendance records. The Village has a total of eight employees. The

Village's collective bargaining agreement (CBA) covers highway department employees and the Village's Operating Policies and Procedures covers all full-time employees that are not covered under the CBA. Payroll is processed weekly, with no lag between the time payroll is processed to when the check is issued. The Deputy Clerk transmits the payroll to the payroll service provider on Wednesdays for payment for the time worked from Monday through Friday of the same week. Weekly timesheets do not indicate Village management's approval of the hours recorded on the timesheet. Additionally, the payroll was not certified by a Village official attesting to its accuracy.

Village employees record their regular hours, overtime hours and leave time used onto a single weekly timesheet for all employees of the Village. Employees do not maintain individual timesheets. Each employee initials next to his or her name on the weekly timesheet to signify that the timesheet properly reflects hours worked. Village officials informed us that the Clerk-Treasurer verifies the weekly timesheets to make sure that the hours agree prior to the Deputy Clerk processing the final payroll. However, there was no signature or initial to indicate that the payroll has been approved.

We reviewed 18 weekly timesheets for seven of the eight¹ employees from April through July 2010,² totaling \$70,715 for regular hours and \$19,142 for overtime hours, and compared those timesheets to what is entered in the payroll registers.³ We found no evidence that any Village official or management approved the time recorded on the timesheets used to process the weekly payroll. The payroll records also did not contain the Clerk-Treasurer's signature attesting to the accuracy of these records.

Our comparison showed that hours recorded on the timesheets did not always coincide with the hours recorded in the payroll register. Discrepancies between the timesheet and the payroll register were found in 41 of the 126 instances for employees who were paid a total of \$25,303 for regular hours and \$4,929 for overtime hours. For example, one employee's timesheet for the week ending June 25, 2010, showed 32 regular hours and eight personal leave hours, whereas the payroll register instead reported 40 regular hours. As leave accrual balances are maintained through the payroll register records, when leave accruals are not properly recorded to the payroll

¹ We reviewed all Village employees, except for the Clerk-Treasurer.

² To cover both fiscal years, we selected the last two months of the 2009-10 fiscal year and the first two months of the 2010-11 fiscal year.

³ The payroll register includes the total hours worked and leave used during the weekly pay period, and leave accrual balances.

records, the leave balance will not be correct. In this case, personal leave was not reduced by the eight hours used.

The Village submits the weekly payroll to the payroll service provider on Wednesday for the week ending on Friday; therefore, Village officials are processing payment for work that has not been performed. This practice increases the likelihood that time charged on Thursday and Friday may not be reflected in the payroll record, resulting in the leave accrual balances not being correct. Of the 41 instances in which the timesheet did not agree with the payroll register, we found that, in 16 instances totaling 128 hours, employees charged time on Thursday or Friday on their timesheets; however, these times were not reflected in the subsequent week's payroll register.

The lack of oversight and failure to maintain properly designed time and attendance records and to certify the accuracy of the time and attendance data increases the risk that payments may be made to Village employees for work hours and leave usages that are incorrect and to which they may not be entitled.

Overtime

When employees work beyond their normal working hours (overtime), additional payroll and supervisory controls are necessary to help ensure overtime is authorized and payments are accurate. These controls should include prior written authorization for all non-emergency overtime hours worked, and pre-approval of overtime hours for all emergency situations. Village management should follow-up with a review of overtime records, to provide reasonable assurance that overtime was necessary and approved. Another effective control over the payroll process, is properly designed forms which allow comparisons to be made between time records and payroll systems record. These forms should be used to record the approval of overtime and thereby limit unauthorized overtime and inaccuracies and provide an audit trail on overtime from start to finish.

The Board has not established a policy to guide the overtime process, and Village officials did not implement formal procedures to ensure an acceptable method of documenting overtime hours. As a result, there is an increased risk that the Village paid for unnecessary or inaccurate overtime costs.

Overtime Procedures — A critical control over overtime expenditures is written pre-approval of overtime worked and subsequent approval of the employee's timesheet for payment. The Village employs three full-time and one part-time highway employees, and four non-highway staff, including a Clerk-Treasurer, and a Court clerk. During the 2009-10 fiscal year, these eight employees incurred total payroll

cost of \$418,292, of which \$51,582 was for overtime. The Village's informal procedure is for employees to record the total number of overtime hours worked on the Village's weekly timesheet.

We found that the overtime records were poorly designed. It was not always clear when an employee worked the overtime hours recorded on the timesheet. The overtime record consisted of pieces of paper attached to the timesheet stating an employee's name and the number of hours worked without indicating the beginning and ending times or dates of overtime worked. Additionally, other than the mandatory weekend coverage for the sewer plant, the purpose of the overtime was often not indicated. There was no documentation to show why and when the overtime was worked, and supervisory approval of overtime was not obtained prior to or subsequent to overtime being paid. Because of the poorly designed overtime records, we analyzed seven of the eight employees' weekly timesheets and payroll records for April through July 2010, and found that the Village paid \$9,244 to highway department employees and \$591 to non-highway employees for overtime hours based on timesheet entries that did not show beginning and ending times, did not indicate Village officials' approval, and did not indicate the purpose of the overtime hours worked.

When controls over the authorization, approval and documentation of overtime are weak, officials have no assurance that the overtime paid was properly authorized or actually worked.

Compliance with Operating Policies and Procedures — The Board-adopted Operating Policies and Procedures did not clearly articulate when an officer or employee, covered by the operating policy, is eligible for overtime payments. The Operating Policies and Procedures apply to full-time Village employees not covered by the current collective bargaining agreement.⁴ The only express reference made to overtime in the policy is under “compensatory time,” stating that compensatory time “may be given in lieu of overtime pay at the discretion of the Village Clerk⁵ or Mayor at the rate of one and one-half hours per hour worked beyond the employee's normal work week.”⁶ According to the Clerk-Treasurer, overtime payments to employees were intended to meet the requirements of the Fair Labor Standard Act (FLSA).

⁴ Although the Operating Policies and Procedures use the term “Employee,” we have been informed by the Village that they also have been applied to Village officers.

⁵ Same as Clerk-Treasurer

⁶ Although not identified as “overtime,” the Operating Policies and Procedures also provide that “employee shall be paid at the rate of time and one-half...” when required to work a holiday.

The FLSA generally requires “time and a half” compensation, at a minimum, for employees covered by the FLSA who work in excess of 40 hours per week.⁷ The FLSA generally does not allow leave credits (e.g., sick leave) to be counted towards hours worked when calculating the 40 hours. Moreover, under General Municipal Law, a local government may provide overtime compensation by resolution only for employees and certain officers required to work in excess of their regularly established hours of employment. Based on this language, unless provided for in a collective bargaining agreement, overtime calculations should be based on actual hours worked, excluding paid time for holidays, sick leave, or vacation time.

Three Village employees⁸ were subject to the Operating Policies and Procedures relating to overtime payments. We reviewed these three employees’ time records for April through July 2010 and found that they were sometimes paid overtime even though they did not work a 40 hour week. As a result, we found 53 questionable overtime hours paid by the Village. For example:

- One individual worked 32 regular hours, used eight hours sick leave and received four hours overtime for the week ending May 14, 2010.
- Another individual worked 24 regular hours, used eight hours sick leave and eight hours personal leave and received eight hours overtime for the week ending April 9, 2010.
- A third individual worked 16 regular hours, used 16 vacation hours and eight personal hours and received 8.5 overtime hours for the week ending April 30, 2010.

The Village paid these three employees a total of \$5,645 in overtime, although the Village’s Operating Policies and Procedures did not specifically address when an officer or employee is eligible for paid overtime. These employees did not have authorization from a Village official prior to working overtime. Without detailed records justifying all overtime hours worked, the Village has an increased risk that it may pay officers or employees for overtime hours not actually worked, or for work that could have been performed during regular work hours.

Leave Accruals

Leave accruals represent time off earned by employees. The accumulation of leave time is driven by labor contracts and/or Board approved policies. Generally, employees earn a fixed number of days

⁷ Generally, compensatory time may be provided, in lieu of time and a half, if provided for in a collective bargaining agreement.

⁸ The Clerk-Treasurer was excluded because he is a salaried official and is not required to keep time records.

each year for vacation, sick leave, and personal use. It is important that the Board adopt policies and procedures to ensure that there is adequate supervisory oversight and that accurate leave time records are maintained. Proper accounting for employee leave time requires the periodic verification of records for leave time earned and used, to ensure that leave allowances and balances to which employees are entitled are accurate, reliable and prepared in a timely manner.

The Operating Policies and Procedures state that requests for leave time use are to be given to the Clerk-Treasurer and must be approved by the Clerk-Treasurer or the Mayor well in advance of the event. The CBA is silent as to the use of leave time. The Village’s informal procedure for vacation requests varies between the highway department and the office staff. Office staff are required to send an email request to the Clerk-Treasurer notifying him of their intent to take vacation. Highway department employees verbally notify the Clerk-Treasurer of vacation requests but do not have to provide documentation of the initial vacation request. Leave time used is recorded on the weekly timesheet on the day used. The Village Clerk-Treasurer maintains an excel spreadsheet with leave time earned, used, and running balances for all employees (leave records) and updates this record periodically.

We found that hours worked and leave time charges recorded on timesheets did not agree with the corresponding payroll register and leave records. To determine the accuracy of the leave records, we tested seven⁹ of the eight employees who were entitled to earn and use vacation, sick, and personal leave. We traced these seven employees’ leave usages from weekly timesheets to the payroll register and to the leave records maintained by the Clerk-Treasurer. The leave time used by five of the seven employees (71 percent) was recorded inaccurately in the payroll register and four of those five employees’ leave records maintained by the Clerk-Treasurer did not match the leave reflected on the weekly timesheets. For example, all three sources show a different total for the two month period we reviewed for vacation days used.

Table 1: Leave Usage (in Days)			
	Vacation Used	Sick Used	Personal Used
Timesheets	156.0	280.0	8.0
Payroll Registers	148.0	280.0	0.0
Leave Records	142.5	232.0	0.0

⁹ The eighth employee was an appointed employee, the Clerk-Treasurer, and is not required to keep time records.

Village management has not maintained adequate time and attendance records for recording and monitoring leave time. Because highway employees were not required to formally request leave, there is no documentation supporting their leave requests. For example, one employee had 44 hours of leave used on his time card; however, the payroll register indicated that 36 hours were used during the same period and the leave records indicated 30.5 hours were used. In essence, the Village paid these seven employees for 148 vacation hours totaling \$2,811 and 280 sick hours totaling \$5,574 without a leave request form which would provide an audit trail to assist management with the preparation of accurate leave accruals balances for these employees.

These employees were all paid for the hours in question because they are all full-time employees who are paid whether they work the day or use their leave accruals, and they had sufficient leave credits available for the hours not worked. However, errors in the accrual balances, as recorded in the payroll registers and leave records, could have an impact on termination payments. The lack of accurate time accrual records and adequate oversight of the leave accrual record system is a significant internal control weakness. As a result, the Village does not have adequate assurance that employees worked a full day, leave accruals were approved, and accurate leave records were maintained.

Recommendations

1. The Board should ensure that an adequate policy manual is created for all aspects of the payroll process. The manual should contain procedures related to time keeping, overtime procedures and records, and leave accrual records.
2. The Board should implement procedures requiring employees to complete individual time records. Such time records should be approved and signed by an employee's immediate supervisor or appropriate Village official.
3. The Mayor or someone appointed by the Board should certify the accuracy of the weekly payroll.
4. Village officials should not process payment for work that has not yet been performed.
5. The Board should establish and implement procedures to help guide the overtime process and to properly document and monitor overtime expenditures.
6. The Clerk-Treasurer should maintain accurate and complete leave accrual records for all employees, require leave requests to be in writing and properly authorized in advance, and communicate available leave balances to employees.

Procurement

An effective procurement process helps the Village to obtain services, materials, supplies and equipment of the right quality, in the right quantity, from the right source, at the right price, and in compliance with all applicable Board and legal requirements. When it comes to procurement, a good system of internal controls helps to ensure that purchases are authorized, valid, supported, recorded, and accounted for in a timely and accurate manner. Also, officials must ensure that claims are audited and approved before payment is made.

General Municipal Law (GML) requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding, such as professional services, to ensure the Village obtains these services from qualified providers at the most economical cost. These policies and procedures should indicate when Village officials need to use competition such as requests for proposals, and should provide for adequate documentation of the actions taken, including written contracts for services. In addition, the Board should authorize credit card usage and adopt a comprehensive policy establishing guidelines for credit card purchases.

The Village did not seek competition when procuring \$155,000 in professional services from seven vendors, and did not enter into written agreements with five of them. Furthermore, the Village does not have written policies and procedures to govern credit card purchases. As a result, there is an increased risk that credit cards will be used to make purchases that are not for Village purposes.

Professional Services

While the Village is not legally required to seek competition when soliciting professional services, doing so would help ensure that the Village was obtaining needed services at a reasonable price and in the best interest of the taxpayers. A written agreement for professional services provides the Village and the individual or firm furnishing services with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. Therefore, it is important for the Board and professional service providers to enter into written contracts prior to any services being performed. Contracts should be used to verify that the fees charged by the professional service providers are in accordance with Board resolutions. These practices help to ensure that taxpayer dollars are expended in the most efficient manner.

Village officials informed us that they had not adopted a purchasing policy until October 2010. Therefore, during our audit period, Village staff did not have any procurement policy or written procedures to follow regarding the solicitation of professional service providers. The newly adopted policy states that alternative proposals or quotations for goods and services shall be secured by use of written request for proposals, written quotations, verbal quotations or any other method of procurement which furthers the purposes of GML.

We reviewed a sample of eight¹⁰ professional service providers who were paid \$179,894 over the course of the audit period. The Village did not solicit competition when procuring seven of these eight professional service providers, who were paid \$155,461 during our audit period. Village officials indicated that the selection was based on personal recommendations. In addition, the Village did not have a signed contract with six of the eight professional services providers who were paid \$133,814 during our audit period.

While the Village is not required to seek competition when procuring professional services, doing so would help ensure the Village obtains quality services at reasonable prices. In addition, without having written contracts approving services to be provided and fees to be paid, Village officials do not have adequate assurance that fees charged were correct and were for properly authorized services.

Credit Cards

A sound credit card policy describes the parameters for using credit cards and the procedures for monitoring card usage. It is important that the policy identify persons who are authorized to use the cards and the documentation required to support purchases, and provides for monitoring of their use. Effective internal controls over the claims processing of credit card bills help ensure that all claims contain enough supporting documentation to determine whether they comply with Village policies, and whether the amounts claimed represent actual and necessary Village expenses. Village officials must ensure that each credit and charge card claim is audited and approved before payment is made.

The Board has neither formally authorized the use of credit cards nor has it adopted a credit card policy. Nevertheless, the Village has three credit cards. One card is maintained by the Clerk-Treasurer for online and small local purchases. This card was issued in the name of the previous Deputy Mayor who was no longer a Village official as

¹⁰ During our audit period, the Village had 12 professional service providers and made total payments of \$261,861. This sample was chosen from payments made between \$8,000 and \$46,000 during our audit period, and included two accounting services totaling \$80,419, three engineers totaling \$65,524, survey services for \$12,450, a building consultant for \$11,680 and IT support for \$9,821.

of May 2010. Village officials had not requested a replacement card. There are also two fuel cards maintained by the highway department to purchase fuel for Village vehicles. The Village made payments of \$16,982 for the three credit cards during our audit period. The Village has not adequately implemented internal controls over the auditing, processing, and payment of credit card claims.

We reviewed all 46 credit card claims from the three credit card vendors during our audit period. Of the 46 credit card statements, 33 statements totaling \$10,922 (72 percent of the claims) were paid without any receipts substantiating the charges. Another eight claims totaling \$4,905 did not have all the receipts attached to the statements. Only four of the 46 claims totaling \$1,148 (less than 10 percent of claims) had all receipts attached.

Village officials also did not ensure that each credit card claim was audited and approved by the Board before payment was made. Checks were issued to the vendor before claims were presented to the Board for approval for 33 of the 46 claims reviewed, totaling \$11,365. Additionally, two of the remaining 13 claims, totaling \$178, were not included on an abstract and therefore, there is no evidence that the Board was made aware of these two payments.

Because Village officials did not monitor the use of credit cards to ensure that all charges were supported by original and itemized receipts, did not ensure that the Village received all credit card statements, and did not properly approve claims and perform a thorough and deliberate audit of claims, the Village may have paid for purchases that were not authorized or may not have been for valid Village purposes.

Recommendations

7. The Board should ensure that the newly established procurement policy is followed and ensure procedures are in place so that contracts are awarded under the most advantageous terms and conditions.
8. The Board should enter into written contracts with all service providers and ensure that these agreements clearly describe the services to be provided and the basis for compensation.
9. The Board should formally authorize the acquisition of credit cards.
10. The Board should establish written policies and guidelines governing the use and control of Village credit cards, and review and update the policies annually.

11. Village officials should ensure that any credit cards issued to former Village officials and employees are immediately canceled when they leave Village service.
12. The Board should ensure that they perform a thorough and deliberate audit of credit card claims prior to payment. The Board should implement procedures to reconcile credit card statements with purchase receipts and receiving documentation to ensure that all purchases are legitimate and for proper Village purposes.

Information Technology

The Village uses information technology (IT) to initiate, process, record, and report transactions. It also relies on its IT system to transmit information, store data, process payroll, maintain financial records, communicate by electronic mail (email), and access the Internet. If the IT system fails, the results could range from inconvenient to catastrophic. Even small disruptions in processing can require extensive effort to evaluate and repair. Accordingly, Village officials are responsible for establishing internal controls over IT to protect these assets against the risk of loss, misuse, or improper disclosure of sensitive data.

The Board is responsible for adopting policies and procedures for all aspects of the Village's computerized data. Such policies should include, but not be limited to, acceptable use standards for computers, remote access controls, breach notification, and disaster recovery. Effective technology policies and procedures should be regularly reviewed and updated to reflect changes not only in the organization's technology environment, but those occurring in the outside computing environment as well. The Village engages the services of a consulting firm which provides services to support the day-to-day operations of the Village's computer systems and serves as the Village's network systems administrator. The Village uses a financial software program to process and maintain financial transactions.

Village officials have not established adequate internal controls to effectively safeguard the Village's computer system data. The Board has not adopted comprehensive IT policies and procedures that provide guidance to Village employees on all aspects and appropriate use of IT systems. There are no policies and procedures established regarding remote access, breach notification and disaster recovery. The lack of such policies and procedures increases the risk that computerized equipment and data could be misused or that the Village's network could be subject to unauthorized access. In addition, the Village does not have a plan in place to notify those who may be affected by a potential breach of their personal information and the Village would likely not be able to maintain or quickly resume critical functions in the event of a disaster.

Computer Use Agreement—Good internal controls over computerized data should include an acceptable use policy that informs users about what constitutes proper use of Village computers and monitoring computer usage to ensure compliance with the policy. It is important that an acceptable use policy includes definitions of authorized and

acceptable uses of computer resources and privacy and restricted access requirements, and that users acknowledge that they will abide by the policy

The Board has not adopted an acceptable computer use policy to protect the Village from illegal or damaging actions by employees and other authorized users, either knowingly or unknowingly. In addition, the Village has no procedures in place to guide network and Internet users in understanding that computer use is a privilege, not a right, and that computer use entails responsibility and compliance. Village officials do not monitor computer use to determine whether staff is properly using the Village's computer resources.

The Village provided network access to four employees without establishing an acceptable computer use agreement. The Village also provided network access to an outside consultant, to provide consulting services to the building department; however, there are no provisions in this contract relating to acceptable computer use. In addition, the Village provides network and unrestricted access to the IT consultant and an accounting consultant without an agreement outlining what is expected from these consultants with regard to acceptable computer usage.

While comprehensive computer usage policies do not guarantee the safety of the Village's electronic information, the lack of such policies significantly increases the risk that hardware and software systems and the data they contain may be lost or damaged by inappropriate use. This leaves the Village vulnerable to risks associated with personal use, including computer viruses and spyware.

Remote Access — Remote access is the ability to access the computer network from an Internet or other external source. An important component of internal controls ensures that remote computer access is controlled, monitored and tracked so that only authorized individuals may enter or retrieve data. Policies and procedures should address how remote access is granted, who is given remote access, and how it will be tracked, monitored, and controlled.

The Board has not adopted a remote access policy and procedures. Two outside consultants (IT and accounting) have remote access capabilities. The Village has no written agreements with these outside consultants that address remote access to the systems, the expectations and consequences. In addition, their remote access is not adequately monitored to determine when and who has accessed the system remotely.

Without a remote access agreement, there is a greater risk that the Village's information technology resources could be compromised and/or inappropriate transactions could be initiated and not detected by the Village.

Breach Notification — An individual's private and/or financial information, along with confidential business information, could be severely impacted if the Village's computer security is breached or data is improperly disclosed. Technology Law Section 208 requires the Village to establish an information breach notification policy. Such a policy should detail how the Village would notify state residents whose private information was, or is reasonably believed to have been, acquired by a person without a valid authorization. It is important for the disclosure to be made in the most expedient time possible and without unreasonable delay, consistent with the legitimate needs of law enforcement or any measures necessary to determine the scope of the breach and restore the reasonable integrity of the data system. Safeguarding information is challenging when personal and business information is stored on laptop computers, or portable media. Village residents, officials, employers and vendors have a right to expect that the Village will protect their personal, private, or sensitive information.

The Board has not adopted a breach notification policy detailing how employees would notify Village residents whose private information was, or is reasonably believed to have been, acquired by a person(s) without a valid authorization. Additionally, there are no stipulations in place to aid law enforcement investigations in security breaches.

The Village had a laptop computer which was assigned to the Mayor, to be used as a part of his official Village responsibilities. However, when we requested to physically examine the computer to verify that portable items are properly safeguarded and used for Village purposes, the Mayor informed us that the laptop had been stolen. This apparent theft had never been reported to other Village Officials or the police. The Mayor stated that the laptop contained no personal, private, or sensitive information. Nonetheless, without an information breach notification policy, in the event that private information was compromised, Village officials and employees may not have been prepared to notify affected individuals.

Disaster Recovery Plan — A disaster recovery plan is intended to identify and describe how Village officials plan to deal with potential disasters. Such disasters may include any sudden, catastrophic event (e.g., fire, computer virus, or deliberate or inadvertent employee action) that compromises the availability or integrity of the IT system and data. Contingency planning to prevent loss of computer

equipment and data and the procedures for recovery in the event of an actual loss are crucial to an organization. The plan needs to address the roles of key individuals and include the precautions to be taken to minimize the effects of a disaster so officials and responsible staff will be able to maintain or quickly resume day-to-day operations. Disaster recovery planning also involves an analysis of continuity needs and threats to business processes and may include significant focus on disaster prevention.

Village officials have not prepared and tested a disaster recovery plan for the Village's financial system or its network system. In the event of a disaster, Village personnel have no guidelines or plan to follow to resume orderly operations as soon as possible, to help minimize or prevent the loss of equipment and data, or to provide guidance for implementing data recovery procedures. As a result of these control weaknesses, the Village's IT assets are at an increased risk of loss or damage, and there could be potentially costly disruptions to its critical operations.

Recommendations

13. The Board should adopt written comprehensive computer policies including acceptable computer use, remote access, and breach notification.
14. Village officials should develop an acceptable use policy and require that employees acknowledge their understanding of the policy, before they are given network access. Computer use should be monitored for compliance to the policy.
15. Village officials should secure agreements with vendors regarding expectations and consequences of computer usage. Village officials should also institute procedures for monitoring remote access.
16. The loss or theft of public assets should be promptly reported to appropriate officials.
17. Village officials and employees should be instructed in the proper procedures for securing Village-owned equipment.
18. Village officials should develop and implement a formal disaster recovery plan, identifying potential risks and detailing the responses to be taken. Village officials should distribute the plan to all responsible parties, periodically test the plan, and update the plan as needed.

Justice Court

A well-designed system of internal controls is necessary to ensure that cash received by the Village's Justice Court (Court) is safeguarded and that Court activity is properly recorded and reported. Justices are not only responsible for adjudicating cases brought before them, they are also responsible for the accounting and reporting of all related Court financial activities. To meet that responsibility, they must ensure that the Court clerk maintains complete and accurate accounting records, safeguards all moneys collected, reconciles cash activity, deposits cash in a timely manner and reports all Court transactions to the New York State Comptroller's Justice Court Fund (JCF) in a timely manner. A Village Justice may be personally liable for money paid to the Court if it is lost or stolen from his/her office, even when he/she is free from negligence or malfeasance. Therefore, fines, fees, and other moneys payable to the Court must be received by a Justice or by personnel under his/her supervision and control. Monthly reconciliation of bank accounts enables Court personnel to verify the accuracy of financial records and establish control over cash. The Village has one Judge, one acting Judge¹¹ and a Court clerk.

Internal controls over the Court operations were not properly designed or operating effectively to properly account for Village assets. The Justices did not ensure that the Court clerk deposits money collected timely and that bank accounts are reconciled on a monthly basis. As a result, deposits were made as much as 43 days late and errors in credit card deposits went unnoticed. When internal controls are not put in place, Court assets are placed at risk of loss or abuse, with little risk of being detected.

Deposits

State regulations require all Court receipts to be deposited as soon as possible and no later than 72 hours, excluding Sundays and holidays, from the date of receipt. Additionally, deposits should be made intact (in the same form that they were received) and complete (each receipt within a receipt sequence in a deposit is accounted for). This requirement is an essential control that helps prevent irregularities in the management of cash.

The Court clerk is responsible for making deposits for fines and fees collected by the Court. We reviewed deposits totaling \$18,725 from July 2010¹² to determine if receipts were deposited in a timely

¹¹ The acting Judge will hold court when the Judge is not available.

¹² We selected July 2010 because it was the month with the highest collection amount for the 2010-11 fiscal year that fell within our audit period.

manner. Nine deposits did not have any supporting documentation to indicate the actual date payment was received. The remaining 16 deposits included 62 individual receipts, and 38 of those 62 receipts (61 percent) totaling \$5,625 were deposited between six and 43 days after collection, which is significantly later than the required 72 hours.

Village officials indicated that there has been significant turnover in the Court clerk position. Due to the Board's appointment of a new Court clerk in November 2010, we subsequently selected January 2011 to determine whether the receipts were currently being deposited timely. Our sample of 24 deposits included 56 individual receipts totaling \$4,200, and 67 checks totaling \$3,035 received in the mail for which no receipts were issued. Although the checks were recorded in the cash receipts journal, there was no supporting documentation, such as a log, to indicate the actual dates payments were received. The 56 receipts reviewed were deposited within the required 72 hour time frame.

We also selected 34 cases¹³ from different monthly Court dates during our audit period to determine if the amounts collected were deposited intact and timely. We found that receipts were deposited intact. However, six receipts totaling \$1,995 were deposited between six and 15 days after the money was received.

The failure to deposit Court funds on a timely basis into official bank accounts increases the risk that Court funds could be lost or misused and not be detected and corrected in a timely manner.

Bank Reconciliations

It is important for Court personnel to verify the accuracy of financial records and establish control over cash by reconciling bank accounts monthly. Court personnel should also compare cash on hand and on deposit in the bank to amounts due to the JCF and others. This comparison is referred to as an accountability analysis. Performing bank reconciliations and accountability analyses are critical procedures to ascertain the status of moneys held by the Court. The Court's liabilities, such as unremitted fines and fees, should equal the Justice's available cash.

Court personnel did not perform bank reconciliations and accountability analyses for either of the Justices' bank accounts during our audit period. The Court clerk told us that, although she does not perform bank reconciliations, she obtains a copy of the monthly bank statement and ensures that all deposits and withdrawals are accounted for.

¹³ Samples were selected using a random number generator which selected two cases per monthly Court calendar during our audit period.

In the absence of routine reconciliations and analyses, it is difficult to ensure that all moneys received have been accounted for. For example, a total of \$980 collected from credit card payments in July and August 2010 was incorrectly deposited by the credit card merchant in another village's justice court bank account. Court personnel did not identify the missing money through the reconciliation process and only learned of it when notified by the other justice court. The money was not deposited in the Village's bank account until November 2010. This error went unnoticed by Court personnel because bank reconciliations are not performed for either of the Justices' bank accounts.

Without timely and complete bank reconciliations and analyses, performed and reviewed by an individual independent of the cash custody function, Justices and Village officials do not have a reasonable level of assurance that the Court records are correct or that all moneys are accounted for properly. It also increases the risk of unauthorized use or disposition of cash and makes it more likely that Court officials will not detect errors and/or irregularities in a timely manner.

Recommendations

19. The Justices and Board should ensure that Court personnel deposit monies collected for the payment of fines, fees, and surcharges within 72 hours of receipt. Unreceipted payments, such as checks collected through the mail, should be supported by documentation, such as a log, to indicate the actual dates payments were received.
20. The Justices should ensure that proper reconciliations of the fine bank accounts are performed on a monthly basis. All cash on hand and on deposit in the bank should be compared to a listing of Court liabilities. Any differences should be promptly investigated.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



INCORPORATED VILLAGE OF MANORHAVEN
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Trustees
RITA DI LUCIA
BRENDAN FAHEY
JIM AVENA
Village Clerk-Treasurer
JONATHAN P. FIELDING
Superintendent of Buildings
DAVID L. MAMMINA

June 1, 2012

VIA FIRST-CLASS MAIL &
ELECTRONIC MAIL

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

RE: Internal Controls over Selected Financial Activities, Report of
Examination 2011M-236

Dear Mr. McCracken:

Please accept this letter as the written response of the Inc. Village of Manorhaven to the above referenced audit conducted by your office, executed by the undersigned on behalf of the Mayor and the Board of Trustees. Please note that the corrective action plan ("CAP") will follow under separate cover within the appropriate required time frame.

First and foremost, it is important to note that the draft report does not allege any official misconduct or noncompliance with state statutes. Instead, the report seeks to raise awareness on behalf of the Village's governing board with respect to improving the operational practices of the Village in order to create more robust audit trails for the Board so that it can effectively verify that every expenditure of public monies has been for an appropriate purpose.

The Village is grateful to the Office of the State Comptroller for expending such a significant amount of time checking on our practices and procedures and suggesting appropriate improvements to them. The repeated interaction between the State Comptroller's office and all of our local government entities represents the best opportunity for local governments such as the Village to reap the benefit of the wider expertise and experience held by the State.

With respect to the findings of certain weaknesses in the audit trail for payroll records, please note that since those weaknesses were brought to

the Village's attention, we have redoubled our efforts to create and maintain a more robust audit trail with respect to those records.

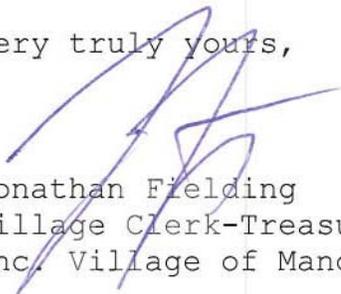
With respect to issues raised by your office in relation to procurement, please note that the Village did adopt a procurement policy at the close of the audit period. Subsequent to the audit period, the Village canceled the credit card referenced in the report. The Village has also significantly reformed the process it uses for fuel procurement in order to allow for a thorough and deliberate audit of claims in relation to fuel purchased.

With respect to information technology, the Village confines its remarks to stating that it will identify, adopt, and implement the appropriate policies and plans in order to provide for greater security.

With respect to Justice Court procedures, most of the problems encountered by the Village were attributable to a former Clerk to the Village Justice who was terminated by the Village Board. Subsequent to the audit performed by your office, regular monthly bank reconciliations for Justice Court accounts have been performed by the Village's retained certified public accountant.

Thank you again for your courtesy and advice with respect to Village operations. The Village will continue to aggressively reform its practices in order to assure the highest level of service to the community.

Very truly yours,



Jonathan Fielding
Village Clerk-Treasurer
Inc. Village of Manorhaven

cc: Hon. John M. Di Leo, Jr.
Hon. Rita Di Lucia
Hon. Brendan Fahey
Hon. James Avena

APPENDIX B

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. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology (IT).

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Village's financial transactions as recorded in its databases. Further, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems is secure. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed.

We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected the payroll, procurement, IT operations and the Court for further audit testing. To accomplish the objectives, our examination included the following steps:

- We interviewed Village officials and staff to obtain an understanding of internal control processes in place.
- We reviewed the Village's time sheet, overtime records, payroll reports and leave accrual records for select employees for April through July, 2010 (June and July, 2010 for leave accruals) to ensure that transactions were properly recorded, reviewed, approved, certified (if required), and reconciled. We judgmentally selected these months to cover both fiscal years and to maintain continuity and reviewed seven of the eight employees, except for compliance to agreements for overtime payments, where we chose all non-highway employees.
- We reviewed payments made to a select number of professional service providers, the related contracts and Board resolutions. We selected eight of the 12 professional service providers that the Village paid during the course of the audit period, in which they made total payments of \$261,861 to these vendors. A variety of professional service providers were chosen to fairly represent the entire population. This sample was chosen from payments made between \$8,000 and \$46,000 during our audit period, and included two accounting services totaling \$80,419, three engineers totaling \$65,524, survey services for \$12,450, a building consultant for \$11,680 and IT support for \$9,821.

- We examined all 46 credit card payments made during our audit period, along with the corresponding claims packages, abstracts and canceled checks for supporting documentation of charges and evidence of audit prior to payment.
- We interviewed appropriate Village officials to learn about procedures used for making credit card purchases and controls over the credit card process.
- We interviewed appropriate Village officials to obtain an understanding of the organization's computer network.
- We reviewed 16 of 25 deposits totaling \$9,205, from the month of July 2010 to determine if receipts were deposited in a timely manner. We selected the month of July 2010 because it had the highest collection amount for the 2010-11 fiscal year that fell within our audit period.
- We reviewed 24 of the 31 deposits, totaling \$7,235, from the month of January 2011. The 24 deposits consisted of 56 individual receipts totaling \$4,200, and 67 checks totaling \$3,035 received in the mail. We also selected 34 cases from different monthly Court dates during our audit period to determine if the amounts collected were deposited intact and timely. Samples were selected using a random number generator which selected two cases per monthly Court calendar during our audit period.
- We interviewed local officials and employees, and inspected and reviewed existing Court records and reports, to learn about existing internal control systems.

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 C

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