



Village of Patchogue

Selected Financial Activities and Information Technology

Report of Examination

Period Covered:

June 1, 2010 — June 30, 2011

2012M-76



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Village of Patchogue, entitled Selected Financial Activities and Information Technology. 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 Patchogue (Village) is located in the Town of Brookhaven, about 60 miles east of New York City, in Suffolk County. The Village covers approximately 2.3 square miles and has a population of approximately 11,800. The Village's 2010 operating expenditures totaled approximately \$7.8 million for the general fund, \$3.8 million for the capital fund, and \$736,000 for the sewer fund.

The Board of Trustees (Board) is the governing body and consists of six elected trustees, and an elected Mayor. The Board is responsible for auditing Village claims, authorizing capital projects and approving sewer fund applications. The Mayor is responsible for management of the day to day functions of Village operations.

Scope and Objective

The objective of our audit was to examine select Village and Information Technology (IT) activities for the period June 1, 2010 – June 30, 2011. We expanded our scope back to February 13, 2001 to examine capital projects. Our audit addressed the following related questions:

- Does the Board properly authorize and monitor capital projects?
- Does the Village receive all required fees before a customer is permitted to connect to the Village's sewer treatment system?
- Does the Board properly audit claims prior to payment?
- Did the Board adopt policies to adequately secure IT operations?

Audit Results

The Board did not properly authorize all capital projects, nor did it effectively monitor them. As a result, the Village had \$284,808 in unauthorized expenditures and experienced cost overruns in two of the five projects reviewed totaling \$1,900,957. In addition, the Village issued debt to reimburse the general fund for capital expenditures totaling \$549,015, in violation of the Local Finance Law.

The Village did not receive all fees required before customers were allowed to hook up and discharge into the Village's sewer system resulting in the Village not receiving revenues totaling \$77,294. In addition, Village officials did not always follow Local Law and its own written permit procedures. The Board failed to ensure sewer permits were issued in accordance with Local Law. Failure to follow procedures caused the Village to accumulate \$77,294 in lost sewer revenues.

The Board did not audit and approve claims prior to payment as required by Village law and has not established policies and procedures over the claims audit process. We reviewed 35 paid claims totaling \$33,485 and found none were audited by the Board. The failure of the Board to audit claims increases the risk of unauthorized disbursements of Village funds.

Finally, the Board has not established policies and procedures relating to the security of data and assets, including a formal disaster recovery plan. Controls over the Village's IT system are not adequate to prevent unauthorized access to systems and data. Nineteen former employees still had user access privileges. The Treasurer's office does not periodically review and deactivate vendors no longer used by the Village resulting in an outdated master vendor file which increases the risk of improper transactions being processed.

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 recommendations and indicated that they planned to take corrective action. Appendix B includes our comments on issues raised in the Village's response letter.

Introduction

Background

The Village of Patchogue (Village), incorporated in 1893, is located in the Town of Brookhaven, about 60 miles east of New York City, in Suffolk County. The Village covers approximately 2.3 square miles, and has a population of approximately 11,800 residents.

The Village's 2010 operating expenditures totaled approximately \$7.8 million for the general fund, \$3.8 million for the capital fund, and \$736,000 for the sewer fund. General fund expenditures were funded primarily with revenues from real property taxes, State aid, fines and forfeitures, and departmental charges. The capital fund is funded with unassigned general fund balance and Federal, State and local aid. The sewer fund is funded with sewer tax revenues and other sources such as license and permit moneys.

The Board of Trustees (Board) is the governing body and consists of six elected trustees, and an elected Mayor. The Board is responsible for auditing Village claims, authorizing capital projects and approving sewer fund applications. The Mayor is the Board's presiding officer and is responsible for management of the day to day functions of Village operations. The Treasurer is the Village's chief fiscal officer and is responsible for custody of all moneys, must account for all receipts and expenditures, sign checks and pay out moneys as required by resolution or law. The Deputy Treasurer is responsible for maintaining accurate accounting records of the various Village funds, and also is appointed by the Board to serve as the Information Technology (IT) Administrator. The Village Clerk and Deputy Clerk are additional signatories for checks over five thousand in accordance with Board adopted policy. The Superintendent of Public Works is responsible for overseeing the sewer fund application process and is responsible for approving in-district sewer district connections.

Objective

The objective of our audit was to examine selected Village and IT activities. Our audit addressed the following related questions:

- Does the Board properly authorize and monitor capital projects?
- Does the Village receive all required fees before a customer is permitted to connect to the Village's sewer treatment system?
- Does the Board properly audit claims prior to payment?
- Did the Board adopt policies to adequately secure IT operations?

**Scope and
Methodology**

The objective of our audit was to examine select Village activities and IT for the period June 1, 2010 to June 30, 2011. We expanded our scope back to February 13, 2001 to examine capital projects. Our audit disclosed additional areas in need of improvement concerning IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not discussed in this report, but have been addressed under a separate letter and communicated confidentially to Village Officials so they could take corrective actions.

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 recommendations and indicated that they planned to take corrective action. Appendix B includes our comments on issues 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 Board to make this plan available for public review in the Village Clerk's office.

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 financing plan. Periodic reports to the Board that compare expenditures for each capital project to the related budget help 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.

During the audit period, the Village had a total of 33 open capital projects¹ with total expenditures of \$24,978,526. We reviewed five projects with expenditures totaling \$11,397,503, and found that the Board did not properly authorize all projects, nor did they effectively monitor them. As a result, the Village had \$284,808 in unauthorized expenditures and experienced cost overruns in two of the five projects reviewed totaling \$1,900,957. In addition, the Village issued debt to reimburse the general fund for capital expenditures totaling \$549,015, in violation of Local Finance Law.

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. Further, if the Village paid capital expenditures from current funds they may not subsequently issue bonds to finance those same expenditures.

We reviewed five capital projects with expenditures totaling \$11,397,503 and found that the Board did not authorize one of the five projects. This project had unauthorized expenditures totaling \$284,808. While the Board did discuss this project at Board meetings,

¹ Chosen using a random number generator

and passed resolutions approving construction contracts, they did not authorize the project in advance of these actions. Village officials had no explanation as to why some projects are authorized while others are not.

Additionally, of the remaining four projects, two were started prior to Board authorization and prior to securing financing. These two projects had 58 claims totaling \$549,015 spent prior to the Board authorizing the project. The 58 claims ranged anywhere from several months to more than four years prior to the authorization. Both projects were subsequently financed with debt proceeds. However, Local Finance Law does not allow a local government to issue debt to reimburse the general or other funds for expenses already paid unless the authorization occurred prior to the expenditures.

Authorization and approval of capital project costs after expenditures have been incurred weakens Board oversight because projects may have already incurred significant costs, which reduce the Board's ability to control the scope of projects. Commencing capital projects prior to securing financing creates the risk that money may not be available when required for necessary expenditures.

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. Accurate accounting of projects and information provided in expenditure reports help to monitor these costs. 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.

Of the four authorized projects that we examined, with final costs totaling \$11,112,694, two exceeded their Board authorized amounts by a total of \$1,900,957. For example, the Board authorized a project totaling \$8,250,000 to upgrade its waste water treatment plant. However, despite this authorization limit, the Village paid invoices totaling \$10,148,086 without requesting an increase in the authorization, resulting in a project overrun of \$1,898,086.

The projects exceeded the amount authorized because the Board was not adequately monitoring costs due to inadequate record keeping. Failure to monitor total project costs creates the risk that the Board will fail to amend an authorization and a project will exceed the Board's intended cost.

Project Monitoring—Effective monitoring of capital projects can help ensure that a project is progressing as expected and within budgeted

limits. 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 or change the scope of the project. Village Law requires the Board to audit and approve all claims against the Village prior to the payment of those claims.

Village officials are not adequately monitoring capital projects. None of the five projects we reviewed were monitored by the Board and we were only able to confirm that two of the five projects had departmental oversight. Village officials confirmed that the Board does not receive capital project status reports. We reviewed all 157 claims related to the five capital projects tested and none were audited by the Board. Without proper monitoring, the Board cannot be assured that the work performed meets their expectations or was performed within budgetary constraints. Additionally, without project authorizations and without appropriate recordkeeping, Board members cannot effectively monitor capital projects.

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

The Village does not have adequate recordkeeping procedures to account for and monitor project revenues and expenditures. The Deputy 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 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. Due to inadequate recordkeeping procedures, we identified seven claims totaling \$19,067 that were incorrectly posted to the accounting records² and one claim totaling \$6,158 that was paid twice.

² Four claims totaling \$8,938 were posted to a tested project but were not related to that project. Three claims totaling \$10,129 were related to a tested project, but were posted to other funds.

Recommendations

1. The Board should adopt resolutions authorizing the maximum estimated cost of each project at its inception. Financing should be secured prior to starting each project.
2. The Board should require periodic capital expenditure reports showing the authorization for each project, expenditures and encumbrances to date, and available authorizations.
3. The Board should review capital project expenditure reports and, if necessary, increase authorizations or change the project scope before a project is over-expended.
4. All capital project claims should be presented to the Board for audit prior to the Village disbursing any funds.
5. The Board should ensure that each project is accounted for individually by establishing a separate account to monitor each project's complete financial history.

Sewer District

The Village operates and maintains a sewer district which primarily serves the residential and commercial businesses surrounding Main Street within the Village. A number of out-of-district connections have been made through the years to serve property owners within close proximity to the District boundaries. Residential and commercial properties located within the sewer district are required to pay annual sewer taxes.

Residential and commercial property owners requesting connection to the Village's sewer system are required to submit an application with an application fee on a form furnished by the Village Clerk. The Board and/or the Superintendent of Public Works are required to issue a sewer permit once all appropriate fees are paid by the applicant. The amount of this fee depends upon the type of property (i.e., single family, multi-family, commercial, and residential). Connection and hookup fees vary based upon square and linear footage and property owners located outside of the sewer district are required to pay key moneys.³ There were 23 sewer hookup applications for the audit period.

We found that the Village did not receive all fees required before a customer was allowed to hook up and discharge into the Village's sewer system and Village officials did not always follow Local Law and Village written permit procedures. The Board failed to ensure sewer permits were issued in accordance with Local Law. We also found that the Superintendent of Public Works did not issue the required permits, but only issued a letter approving the connection. Further, four commercial businesses were not issued a permit or an approval letter, yet Village officials still allowed the applicants to hook up to the Village's sewer system.

We selected and reviewed seven⁴ sewer applications to determine whether fees were accurately calculated and collected. The seven applicants owed fees totaling \$372,769. However, Village officials collected only \$295,475, leaving an uncollected balance of \$77,294. While three of the seven applicants owed fees, they were still permitted to connect and discharge into the Village's sewer system. For example, an out-of-district restaurant and catering hall submitted a sewer

³ Fees charged to businesses and/or housing developments outside of the sewer district. A per gallon fee based upon the size, either the square footage of the building and/or, if it is residential, the square footage of the unit itself.

⁴ Chosen using a random number generator

connection application to the Village in December 2008. Related fees for this application total \$141,875; however, as of December 2011, the applicant had only paid \$126,875, leaving an outstanding balance of \$15,000 for uncollected key moneys. Although the balance remains unpaid, a letter addressed to the applicant dated June 2010, signed by the Superintendent of Public Works, confirms that the business is hooked up to the Village's sewer system. Two other applicants also have outstanding balances of \$20,000 and \$42,294, respectively, for unpaid connection and hookup fees.

Village officials could not provide us with a reasonable explanation for these outstanding balances. In February and June 2011, letters were mailed to two of the applicants requesting payment; however, as of December 2011, there is still no plan for collecting these outstanding fees.

Recommendations

6. The Board and Village officials should ensure all outstanding sewer fees are collected before allowing a hook up to the sewer system.
7. The Board should ensure sewer permits are issued prior to allowing property owners to connect to the Village's sewer system.

Claims Auditing

Village Law requires the Board to audit and approve all claims against the Village prior to ordering the Treasurer to pay the claims. The audit and approval of claims is one of the most critical elements of the Village's internal control system. A proper audit includes ensuring that each claim is in compliance with the Village procurement policy, is itemized, contains the receipt for the goods or services purchased, was created in advance of the purchase (i.e., not a confirming voucher),⁵ and is a proper and valid charge against the Village. A proper audit should also determine whether the officer or employee who gave rise to the claim signed the claim attesting that goods and services were received and that the charges are correct. The Board's approval should be documented by the signature or the initials of individual Board members written on the claims, along with the date signed, and the authorization must be recorded in the minutes of the proceedings of the Board. After the audit, the Village Clerk prepares an abstract of all claims audited and approved by the Board ordering the Treasurer to pay each claimant the amount approved. The Treasurer should issue checks only after receiving the certified and dated abstract.

The Board did not implement an adequate system of internal controls to ensure that all claims against the Village were presented to and audited by the Board prior to payment. The Village paid 2,617 claims totaling approximately \$16.8 million during our audit period. However, the Treasurer did not present the claims to the Board for audit. Consequently, the Board did not audit the claims, as required by Village Law and taxpayers have no assurance that all amounts paid were legitimate Village charges.

We selected 35 claims totaling \$33,485 and found none of the payments were audited by the Board. The Treasurer did not present a warrant (list of all claims) to the Board and instead presented a memorandum listing the five highest dollar invoices during the Board's bi-monthly meetings. The Board did not audit and approve each claim prior to payment. We also found that some claims lacked sufficient documentation to permit a proper audit and also lacked the signature of an authorized official or employee indicating approval.

Our audit of the 35 claims disclosed the following deficiencies:⁶

- 23 claims totaling \$14,160 did not have department approval signatures.

⁵ A confirming voucher is one that is prepared after goods have already been ordered from a vendor.

⁶ Some claims have multiple deficiencies.

- 22 claims totaling \$21,216 did not have a purchase order attached as required by the Village's procurement policy.
- Nine claims totaling \$7,635 did not match the invoice amount.
- Seven claims totaling \$11,328 did not have proof that goods or services were actually received.
- Three claims totaling \$985 did not include sufficient detail to confirm whether or not they were legitimate Village purchases.
- Four claims totaling \$2,509 did not contain the claimant's certification.

In January 2011, Village officials uncovered an alleged fraud by a senior clerk.⁷ The clerk allegedly stole \$193,000 by falsifying claims and forging signatures on 39 claim checks spanning a four-year period starting in the fall of 2007. Had the Board properly audited the claims, this fraud may have been detected sooner.

The failure of the Board to audit claims increases the risk of unauthorized disbursements of Village funds which may be made and go undetected. The failure to audit and approve claims resulted in the former senior account clerk being able to conceal and misappropriate \$193,000 over the course of several years.

Recommendations

8. The Treasurer should present all claims to the Board for audit.
9. The Board should conduct a thorough and deliberate audit of the claims for payment against the Village ensuring each claim has departmental approvals and sufficient supporting documentation.
10. Board members should sign and date the claims and a list of claims with dollar amounts should be approved in the Board minutes.
11. The Treasurer should disburse payments of claims only after the claims have been audited and approved by the Board.

⁷ This matter was investigated by an internal audit firm and is being prosecuted by the Suffolk County District Attorney's office.

Information Technology

Computerized data is a valuable resource that Village officials rely on to make financial decisions and to report to Federal and State agencies. The Board is responsible for adopting policies and procedures and developing controls to safeguard computerized data and assets. The IT Administrator is responsible for establishing written procedures and to inform the Board about adopting policies related to the Village's IT resources. The IT Administrator, appointed by the Board, is also responsible for ensuring user access rights are appropriately restricted.

The Board has not established policies and procedures relating to the security of data and assets, including a formal disaster recovery plan. Controls over the Village's IT system are not adequate to prevent unauthorized access to systems and data. In addition, there are no controls over user access rights or the master vendor file. As a result, the Village has an increased risk that data will be lost or misused.

Policies and Procedures

A good system of IT internal controls starts with policies to define appropriate user behavior, and the tools and procedures necessary to protect information systems. It is important for Village officials to adopt computer use policies to define appropriate user behavior. Such policies should include procedures governing acceptable use of computers; remote access; breach notification and a disaster recovery plan. In addition, the policy should clearly assign IT responsibilities.

Acceptable computer use policies should be distributed to all employees that have authorized access to the Village's computers. A remote access policy controls the ability of a third party to access the Village's computer system from the Internet or other external source. Such access must be controlled, monitored, and tracked so that only authorized individuals are allowed to remotely access the Village's computer system. A breach notification policy is required by NYS Technology Law and identifies how Village officials will notify individuals whose private information was, or is reasonably believed to have been compromised without valid authorization. A disaster recovery plan specifies how an organization should deal with a disaster such as a power outage, hardware failure, fire, flood or storm.

The Board has not adopted IT policies addressing computer use, remote access, breach notification or recovery in the event of a disaster. In addition, the IT Administrator does not have any written procedures and lacked the knowledge about the requirement for various IT

policies. Therefore, the IT Administrator does not communicate with the Board regarding IT weaknesses or the need for IT policies.

Without comprehensive policies that explicitly convey the appropriate use of the Village's computer system, Village officials cannot ensure that users are aware of their responsibilities and there are no consistent standards for which users are accountable. The lack of clearly written policies and procedures increases the risk of inappropriate computer use, either intentional or unintentional, which could potentially expose Village computers to virus attacks or compromise computer systems. Lastly, the lack of a formally established and tested disaster recovery plan could lead to the loss of important financial data and serious interruptions in Village operations in the event of a disaster.

User Access

The IT Administrator is responsible to ensure that access rights to the Village's IT resources are appropriately restricted. Users should only have access to the computer functions that are within their job responsibilities. It is especially important that user accounts be deactivated as soon as employees leave Village service to ensure that unauthorized users cannot access the system and manipulate or destroy data. Users' access should be reviewed periodically to ensure former employees are not active and that current employees do not have excessive rights based on their job requirements.

The Village did not have a process for adding, deleting, and changing user access rights to the financial software based on employee's duties or employment status. The IT Administrator is not monitoring user access. We reviewed all 36 individuals on the user access list and found 19 are former employees whose access to the system should have been deactivated. There was no activity in the 19 former employees' accounts during the three weeks we tested.

When Village officials do not immediately deactivate user access rights for employees who have separated from Village employment, there is an increased risk that unauthorized users could access the system and cause the misuse, loss, or inappropriate modification or disclosure of sensitive information.

Master Vendor File

In a computerized accounting system, the vendor master file contains a list of vendors with which Village employees are permitted to purchase goods. Any changes to the vendor master file should be properly authorized. Access to the module for creating new vendors should be segregated from employees who authorize purchases or process and approve claims for payment. In addition, it is important that vendors no longer used by the Village be removed from the vendor master file.

Village officials have not established procedures for adding a new vendor to the vendor master file. No verification of any kind is required to determine if a vendor being added is already included in the vendor master file. Additionally, officials have not addressed when and how to deactivate a vendor. Three employees in the Treasurer's office, including the former account clerk, are able to add vendors and change vendor information within the master vendor file. There is no management oversight of this function.

The Village's vendor master file contains 4,440 active vendors of which 571 received payments during the audit period. The Village has no procedure in place to periodically review and purge inactive vendors thus resulting in an outdated master vendor list.

We randomly selected 37 vendors from the master vendor list and found that only three of them were used during the audit period. We selected 14⁸ of the remaining 34 vendors and requested information on each of the vendors to determine when they were last used. The Deputy Treasurer provided information that these vendors had not been used since August 2008. Eight of them had not been used since the 1990's. These vendors are still active in the software because the master vendor file is not updated and old vendors are not deactivated or removed.

Allowing vendors to remain in the vendor master file as an active vendor when they are no longer used by the Village increases the risk of improper usage and errors occurring and not being detected in a timely manner or not being detected at all. Assigning the same individuals the duties of creating and updating vendor accounts, authorizing purchases and processing claims for payment allows for the opportunity to establish fictitious vendors and make payments to them.

Recommendations

12. The Board should develop and adopt IT policies that address acceptable computer use, remote access, breach notification and a disaster recovery plan.
13. Village officials should develop procedures which require that access rights for computer users be based upon current duties or employee status, and user accounts for employees who separate from Village employment be deactivated as soon as they leave Village service.

⁸ Judgmentally selected based on the name of the vendor

14. Village officials should establish procedures for adding new vendors to the vendor master file, including requiring proper authorization and a segregation of duties within the function. They should also require periodic reviews of the vendor master file to ensure that vendors that are no longer used by the Village are deactivated and that vendor information is consistent and appropriate.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

MAYOR
PAUL V. PONTIERI, JR.
DEPUTY MAYOR
JOHN A. KRIEGER
VILLAGE CLERK
PATRICIA M. SEAL



INCORPORATED
VILLAGE OF PATCHOGUE

TRUSTEES
GERARD J. CREAN
JOSEPH E. KEYES, JR.
LORI B. DEVLIN
WILLIAM HILTON
THOMAS E. FERB

July 27, 2012

Mr. Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
NYS Office Bldg, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. McCracken:

We would like to thank your audit team for their professionalism and for their recommendations.

We offer the following response to the audit findings:

With regard to the capital projects totaling \$11,397,503, the largest project being the sewer improvements totaling \$10,148,086, the Village board did approve \$8,250,000 to upgrade the waste treatment plant. The difference of \$1,898,086 was to be funded by previously authorized grants. We had earlier applied for the grant by resolution of the Board of Trustees, but we were unaware we needed to approve the grant amounts in a second subsequent resolution. The Village will put in place a capital projects policy. The Village already does keep separate revenue records by project, as well as, expense records. The Village appreciates the recommendation to set up separate budgets for each individual capital project and will do so. In the future, we will have all capital projects thoroughly approved before funds are spent.

See
Note 1
Page 22

The uncollected sewer fees totaling \$77,294.00 were authorized by the Board of Trustees, to be legally pursued by the Village Attorney. Towards that end, twenty thousand dollars was already collected on June 25, 2012,.

We reviewed the 35 claims that were referred to in the audit. Reference was made to Nine (9) checks that didn't match the invoices. One check was underpaid by \$0.94.; three of the items do not require invoices; two of the invoices included amounts previously paid; one of the invoices was changed in our office because it was

See
Note 2
Page 22

incorrect.; two of the items were paying off a sales order, not an invoice. The Village Clerk or her deputy does approve all claims. The claims that did not have department approval were the Clerk's Department. We understand the critique, but deemed it unnecessary for the Clerk to sign twice (one as the "department head" but also as the signatory authority).

See
Note 3
Page 22

The claims that had no purchase orders were for items such as payroll deductions, credit card payments or utility payments which do not require purchase orders. We will adjust the procurement policy to more accurately reflect this.

See
Note 4
Page 22

Again, we thank your audit team and will follow up on all your recommendations including the IT recommendations. We will diligently implement your recommendations.

Very truly yours,

Paul V. Pontieri, Jr.
Mayor

PVP/kg

cc: Board of Trustees
Village Clerk Seal
Village Attorney Egan
Village Treasurer Krawczyk
Village Deputy Treasurer Monte
Christopher Reino

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

The Deputy Treasurer records project expenditures in the capital fund with a unique account code for each individual project, however, separate revenue records are not recorded by project. Instead, revenue records are maintained by source. Therefore, if two or more projects use the same funding source both projects would be accounted for in the same revenue record. Additionally, the capital project accounts, both expenditure accounts and revenue 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 multiyear projects.

Note 2

All claims require invoices or some other support to confirm that it is a proper and valid charge against the Village. Any deviation in payment should be clearly documented within the claim packet to enable a proper audit. None of these claims were audited by the Board prior to payment. The failure of the Board to audit claims increases the risk of unauthorized disbursements of Village funds which may be made and go undetected. The failure to audit and approve claims resulted in the former senior account clerk being able to conceal and misappropriate \$193,000 over the course of several years.

Note 3

At least 13 of the 23 instances identified in the audit report were for claims that did not originate from the Clerk's Department. In some instances, it was impossible to determine which department the claim originated from due to the lack of sufficient documentation supporting the claim. Therefore, these purchase orders should have been approved by a department head.

Note 4

The Village's written purchasing procedures require that every purchase have "an approved purchase order." The policy does not identify any exceptions to this requirement. Additionally, the claims identified in our audit report included auto repairs, postage, fuel, welding supplies, permit fees, membership fees, subscription fees, plants and a court interpreter in addition to the payroll deductions, credit card payments, and utility payments.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by the Board to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so we could design our audit focus on those areas most at risk. Our initial assessment included evaluations of the following areas' financial condition, control environment, cash receipts and disbursements, payroll, purchasing, justice court fund, sewer fund, capital projects and information technology.

During our initial assessment, we interviewed appropriate Board and Village officials, performed limited tests of transactions and reviewed processes and pertinent documents, such as Board meeting minutes, financial records to include the general ledger, subsidiary records of revenues and expenditures, various financial reports, forms, claims and contracts. After reviewing the information and documented interviews 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. We then decided on the reported objective and scope by selecting those areas at most risk. We selected capital projects, sewer district permits and fees, claims auditing and information technology for further testing and analysis. Our procedures included:

- We interviewed members of the Board and Village Officials to gain an understanding of the controls and procedures within the Village.
- We reviewed blank check stock and bank statements including reconciliations, cleared checks and related claims.
- We reviewed and tested capital projects from Board authorization through payments including Board minutes, expense reports, general ledger records and claims.
- We reviewed and tested the Sewer District processes including permits, applications and receipts collected.
- We reviewed the Information Technology environment including the network, passwords, firewalls, user access, remote access, third party support and vendor application support.

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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