



# Village of Poquott

## Cash Disbursements

### Report of Examination

Period Covered:

June 1, 2010 — November 30, 2011

2012M-61



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 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 Poquott, entitled Cash Disbursements. 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*

# Introduction

## **Background**

The Village of Poquott (Village) is located in the Town of Brookhaven in Suffolk County, between the Port Jefferson and Setauket Harbors. The Village was incorporated in 1931 and has approximately 970 residents.

The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's financial affairs. The Treasurer is the Village's chief financial officer and is responsible for maintaining custody of the Village's moneys, maintaining appropriate accounting records, disbursing Village funds and preparing monthly and annual financial records. In the Treasurer's absence, the Mayor may disburse funds.

The Village offers a variety of services to its residents, including street maintenance, snow removal, public safety, garbage service, a justice court and general governmental support. Operating expenditures for the 2011 fiscal year were \$567,680. These expenditures were funded primarily with revenues from real property taxes.

## **Objective**

The objective of our audit was to review cash disbursements. Our audit addressed the following related question:

- Has the Board established adequate procedures over cash disbursements to ensure Village resources are safeguarded?

## **Scope and Methodology**

We examined the Village's cash disbursement procedures for the period June 1, 2010, to November 30, 2011.

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. Village officials disagreed with the findings and recommendations in our report. Appendix B includes our comments on the 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 Clerk's office.

## Cash Disbursements

Village officials are responsible for establishing effective cash disbursement policies and procedures to ensure that disbursements are made by authorized individuals, properly documented, audited, and approved. In addition, adequate controls over the use of Village credit cards are required to prevent unnecessary and improper payments. It is important that credit cards be used for governmental business purposes and not for personal use.

We found that the Board has not provided sufficient oversight of cash disbursements made by check or with the use of Village credit cards. Because the Board has not established policies and procedures for cash disbursements, a signature stamp is inappropriately being used to sign checks, unauthorized officials are signing checks and not all credit card charges are appropriate. As a result, Village funds were used inappropriately without being detected or corrected.

### **Treasurer's Signature**

The Treasurer is responsible to pay out moneys from the Village treasury. All such payments, except as authorized by Law, are made by check. Checks may be signed with a facsimile signature of the Treasurer, as reproduced by a machine or device commonly known as a check signer, when authorized by resolution or Local Law of the Board. However, a signature stamp bearing the Treasurer's signature cannot be used to sign checks because it is not considered an appropriate check-signing device as authorized by Village Law. It is the responsibility of the Mayor to sign checks in the absence or inability of the Treasurer or Deputy Treasurer, when authorized by Board resolution or Local Law. A certified copy of such resolution or Local Law is the authorization notice to the depository. There is no provision in Village Law to authorize an individual other than the Treasurer, Deputy Treasurer, or Mayor in the Treasurer's absence, to sign checks.

The Village does not have written policies and procedures for cash disbursements. Currently, a Trustee signs all non-payroll checks rather than the Treasurer. However, the Board had not designated the Trustee or anyone else as a Deputy Treasurer to sign checks in the Treasurer's absence. Additionally, payroll checks are signed by a clerk using a signature stamp bearing the Treasurer's signature. Village Law does not permit the use of a signature stamp to sign checks. Furthermore, when a facsimile signature device is used to sign Village checks, the device must be secured by the Treasurer at all times, and used only by the Treasurer or under his/her direct supervision.

Given these weaknesses, we reviewed 191 cash disbursement transactions<sup>1</sup> totaling \$104,716 that cleared the bank during the months of June 2010, October 2010, and July 2011. The 191 disbursements included 64 payroll checks totaling \$22,271 and 127 non-payroll disbursement checks totaling \$82,445. We found that 62 of the 64 payroll checks were signed with the signature stamp, while the other two were not signed at all. The two unsigned checks in the amounts of \$185 and \$427 cleared the bank in June without any signature. We also found that the Treasurer hand-signed only 30 of the 127 non-payroll disbursement checks totaling \$14,298. Of the remaining 97 checks, 89 checks totaling \$50,707 were signed by a Trustee; one check, payable to a brokerage firm for \$14,938 cleared the bank in July 2011 without being signed; and the remaining seven disbursement checks totaling \$2,502 were signed with the signature stamp, even though we were informed that the signature stamp was strictly used to sign payroll checks. When checks are not properly signed by the Treasurer or other individual authorized by Board resolution or Local Law, there is a significant risk that payments could be made in error or for unauthorized costs.

## Credit Cards

Local governments commonly use credit cards for the convenience of making purchases over the phone, online, or to pay employee travel costs. A Board resolution authorizing the use and purpose of credit cards, the number of credit cards, and the credit limits for each card, along with the adoption of a comprehensive credit card policy, provides an initial framework for effective controls over municipal credit card use. It is important that the policy identifies the individuals who are authorized to use the credit card, provides dollar limits for purchases, describes the types of purchases allowed and the documentation required to support the purchases, and provides guidelines for the monitoring of its use. For example, the policy should provide for approving charges before they are incurred, reconciling credit card statements to supporting documentation such as invoices, proper auditing of charges by the Board, and recouping any personal charges.

The Village has three general purpose credit cards, one each issued to the Mayor, the Clerk and the Deputy Clerk. However, the Board has not authorized the use of credit cards, has not adopted a credit card policy and has not adopted a travel policy to address the use of credit cards for travel purposes. Credit card purchases during the audit period totaled \$11,785.

We reviewed all credit card transactions for the seven claims paid during the months of June 2010, October 2010 and July 2011.<sup>2</sup> The

<sup>1</sup> See Appendix C for sample selection methodology

<sup>2</sup> Ibid

credit card statements included 34 transactions totaling \$6,404. One of the 34 transactions was a \$36 late payment fee.

- Seven of the remaining 33 transactions, totaling \$2,500, were not supported by itemized receipts. For example, the Mayor used a credit card to purchase meals on six occasions totaling approximately \$335 while traveling for conferences. However, the receipts attached showed only the total amount of each charge rather than being itemized and did not include a list of the individuals present at the meal. The remaining \$2,165 related to a hotel charge for Village officials attending a conference for which a vendor invoice was not available.
- The Mayor's June 2010 and July 2011 credit card statements included hotel charges totaling \$1,754 for two individuals each attending two conferences. The conferences only required a two-night stay; however, the credit card was used to pay for an extra night for each of the individuals in 2010 and 2011 totaling \$664. The two individuals partially reimbursed the Village \$292 (\$146 each) of the \$334 for the extra night charge in 2011. In addition, the two individuals did not reimburse the Village \$330 for the extra night charge in 2010.
- The claim related to the Mayor's July 2011 credit card statement totaling \$1,635<sup>3</sup> was not audited by the Board.

Without ensuring that credit cards are properly authorized and that use of credit cards is defined by policies and procedures, there is an increased risk that the Village will pay for items that are not authorized, are excessive or are unrelated to Village business. Moreover, without any specific policies and procedures in place to ensure that credit card charges are supported by itemized receipts and paid only after they have been audited by the Board, the Village may have difficulty detecting and collecting reimbursement for any questionable or unauthorized purchases. Finally, procedures must require the timely processing and audit of credit card claims in order to avoid the payment of unnecessary late charges.

## **Recommendations**

1. The Board should adopt comprehensive cash disbursement policies and procedures.
2. The Village should immediately discontinue the use of the signature stamp. If the Village decides to use a check-signing device, it should be authorized by the Board and at all times be in the Treasurer's possession, and only be used by the Treasurer or under the Treasurer's direct supervision.

<sup>3</sup> Included the partially reimbursed charges for the extra hotel stays

3. The Treasurer, not a Trustee, should sign all disbursement checks. In the Treasurer's absence, the Mayor may sign checks.
4. The Board should adopt a credit card policy, establish guidelines on their proper use, and formally identify the individuals authorized to use credit cards.
5. The Board should adopt a travel policy, which includes the appropriate approval and use of Village credit cards for travel purposes.
6. The Board should establish procedures to ensure the timely payment of all credit card charges to avoid paying late fees. These procedures should also ensure that all credit card claims are presented to the Board for audit prior to payment.
7. The Board should review hotel charges on the June 2010 and July 2011 credit card statements and seek reimbursement of any remaining unreimbursed personal charges.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



# INCORPORATED VILLAGE OF POQUOTT

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POQUOTT, NEW YORK 11733

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June 19, 2012

Mr. Ira McCracken, Chief Examiner  
Division of Local Government and  
School Accountability  
250 Veterans Highway, Room 3A10  
Hauppauge, NY 11788

Dear Mr. McCracken.

As you are aware I am the Mayor of the Incorporated Village of Poquott ("Village"). Thank you for providing us with the opportunity to respond to the State Comptroller's Findings with respect to its Audit of Cash Disbursements of the Village ("Report"). We found your auditors to be professional, courteous, and informative. We have already undertaken many steps to remedy the shortfalls that were noted in the Report. For example, the Village Board of Trustees has appointed a Deputy Treasurer with the authority to sign checks on behalf of the Village, and have discontinued the use of the signature stamp. As is evident from the Report, no Village funds that were endorsed by stamp or signed by a Trustee were unlawful or unauthorized expenditures. The Village Board of Trustees routinely reviews and authorizes check payments made by the Village at our meetings, which serves as an additional safeguard against any unauthorized expenditures. At its June 14, 2012 meeting the Village Board of Trustees also enacted resolutions governing credit card usage and travel expenses by Village Officials, as recommended in the Report. Village Officials have been directed to keep the itemized receipt for all meals, as well as a list of those who were present at the meal to avoid any future confusion in this regard.

The Report contained errors of fact that we would like to bring to your attention. With respect to the \$14,938 check that was deposited by the bank unsigned, the bank called the Village to confirm that the check could be deposited. The check was for the Village's insurance policy and as a courtesy, the bank accepted payment without returning the check to the Village. In any event, the payment had been prior approved by the Village Board of Trustees. With respect to credit card expenses used in conjunction with travel and meal expenses by Village Officials, we take exception to your findings. Your conclusion that the conferences that the Mayor and Trustee attended required only a two night stay was incorrect, as was your conclusion that \$664 that was paid for by Village credit card for one extra nights hotel stay in 2010 and 2011 was inappropriate. The fact of the matter is that the Village Board of Trustees authorized the three nights of hotel stays for the Mayor and Trustee so that they could safely travel to the educational conference offered by the New York Conference of Mayors and Village Officials, which are held in upstate New York. Sometimes the conferences start at 9:00 am, and rather than start our drive at 4:00 am so that we can arrive on-time and refreshed for the conferences, the Board of Trustees authorizes us to drive up the day before and stay overnight in a hotel- for a total of three nights. The Board of Trustees is also sensitive to the fact that Mayor and Trustee do not find it safe to drive such long distance in the late evening; leaving a conference upstate at 4:00 pm and driving back to the Village would require that we drive through the evening. When a conference ends that late we customarily stay in a hotel and travel the next morning. However, in 2010 and 2011, we did not spend more than three nights in hotels for a conference lasting two days. The extra night hotel accommodations totaling \$664 for 2010 and 2011 was

See Note 1  
Page 12

See Note 2  
Page 12

a legitimate expense approved by the Board of Trustees. The Village also located the voucher for the vender invoice accounting for the \$2,165 related to hotel charges for Village Officials attending the conference. This was inadvertently not provided to your Auditors at the time of their original review. The voucher was subsequently given to auditors at the exit discussion and should now be part of your file.

See Note 3  
Page 12

The Report incorrectly states that the Village Officials partially reimbursed the Village for the extra night of hotel expenses incurred. This is not accurate. The \$292 that was paid to the Village by the Village Officials was not for a reimbursement of an inappropriate expense. Rather, it was done to balance the “education” line in the Village’s budget, which had gone over in 2010. The two individuals were not required by the Board of Trustees to reimburse the Village for hotel charges that had been prior approved by the Board. Out of charity the budget shortfall was addressed.

See Note 4  
Page 12

The Mayor, with the knowledge, consent and direction of the Village Board of Trustees, in 2010 and 2011 has been permitted to carry a Village credit card (“credit card”). The credit card is used to pay for necessary and reasonable Village expenses. The Board of Trustees were aware that the credit card was to be used to pay for meals at the educational conferences attended by Village Officials. The meal expenses were authorized and approved expenses. The Report correctly states that Village Officials charged \$335 on the Village credit card in 2010 and 2011 on six occasions to purchase meals while away traveling to the educational conferences. Attendees at the conferences are not fed three meals a day. Dinners were not provided by the conferences and using Village funds to pay for the meals of Village Officials were reasonable and necessary Village expense. We make it a practice to attend the conferences each year to educate ourselves so that we can better serve as stewards of the Village. The Mayor’s July 2011 credit card statement totaling \$1,635 was not audited by the Board of Trustees prior to paying the bill, as the bill was due and payable prior to the meeting of the Board of Trustees. All of the expenses incurred over the course of the conferences are necessary, reasonable, are authorized by the Board of Trustees, and directly benefit the Village in all respects.

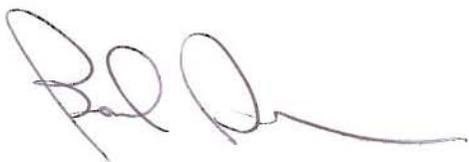
See Note 5  
Page 12

See Note 6  
Page 12

In light of these facts and arguments we disagree with the Report’s conclusion that Village funds were used inappropriately without being detected or corrected. The facts clearly reflect that Village funds were not used for inappropriate purposes, the expenditures in question were authorized by the Board of Trustees, and the Board of Trustees have correctly not required any re-imbursement by any Village Official.

As Mayor and Trustees we continue to safeguard the public’s funds, as well as its trust and confidence in its government. We thank the State for its oversight function and for prompting us to formalize our cash disbursement policies by resolution.

Very truly yours,



Barbara Donovan,  
Mayor

## APPENDIX B

### OSC COMMENTS ON THE VILLAGE'S RESPONSE

#### Note 1

The \$14,938 check cleared the bank in July 2011 without being signed by the Treasurer. Village officials provided no evidence during our fieldwork or at the exit discussion to show that the bank had confirmed with any Village official that the check in question could be cashed without a proper signature affixed to the instrument, as required. The Treasurer is the custodian of Village funds and only the Treasurer can authorize the disbursement of funds through the use of a check bearing his/her signature or through another valid written and signed order to pay.

#### Note 2

The Board resolution provided to us at the exit discussion authorized the Mayor and a trustee to attend a three-day training school. The resolution does not mention any details related to travel expenses or the number of nights Village officials were authorized to stay. The conference agenda provided to us by the Mayor shows that registration began at 1:00 p.m. on the first day and the conference ended at noon on the third day, leaving sufficient time for Village officials to travel during daylight hours.

#### Note 3

The vendor invoice was not attached to the paid claim, as required for a proper audit by the Board, nor was it provided to us during our fieldwork. The vendor invoice given to us at the exit conference was a photocopy of the original. The original invoice was not made available.

#### Note 4

During field work, in response to our inquiries regarding hotel stays, the Mayor informed us by e-mail that the checks for \$292 represented reimbursements to “the Village for an extra day that we stayed at the hotel.” In reference to the new explanation provided at the exit conference, we found that the “education” budget line in the 2009-10 budget of \$5,000 was overspent by \$1,839. Therefore, the \$292 reimbursement was not sufficient to balance the budget line item as suggested.

#### Note 5

The Board had not authorized the use of credit cards, had not adopted a credit card policy, and had not adopted a travel policy to address the proper use of credit cards for travel purposes.

#### Note 6

With certain exceptions, all claims against the Village must be audited by the Board before they are paid. A credit card bill is a claim against the Village. Since it is not exempted from audit by the Board, it cannot be paid before it is audited and approved by the Board. To avoid late payment charges, arrangements should be made to expedite the processing of credit card claims and ensure a timely audit by the Board, as required. Village officials could also request a change in the credit card bill due date to coincide with a regularly scheduled Board meeting.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to review the Village's cash disbursements procedures for the period June 1, 2010, to November 30, 2011. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures.

- We interviewed Village officials and employees to gain an understanding of the check-signing and approval process and to request the credit card policies and procedures.
- We selected a three-month sample of bank statements that also included the highest total dollar amounts of credit card payments and reviewed all 191 checks on those statements to verify the signatures.
- We examined payroll and disbursement checks to determine who signed them and how they were signed, and to confirm Village officials' assertion of their check-signing procedures.
- We traced disbursement checks to the original claim vouchers to confirm that claims were properly audited and authorized by the Board, sufficiently itemized and contained sufficient supporting documentation, for proper and necessary Village purchases, and contained evidence that the goods/services were received.
- We traced the credit card charges to original receipts to determine if the payments were properly audited and authorized by the Board, sufficiently itemized and contained sufficient supporting documentation, for proper and necessary Village purchases, and contained evidence that the goods/services were received.

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.

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