



Village of Old Field Misappropriation of Village Funds and Selected Financial Operations

Report of Examination

Period Covered:

January 1, 2009 — July 31, 2012

2013M-44



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2013

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 Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Old Field, entitled Misappropriation of Village Funds and 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 Old Field (Village) is located in the Town of Brookhaven, in Suffolk County, and has a population of approximately 900. The Village provides services such as public safety, fire protection, street maintenance, snow removal, and general governmental support. Village general fund expenditures for the 2011-12 fiscal year were approximately \$976,000, funded primarily with real property taxes.

The Village is governed by an elected Board of Trustees (Board) comprising a Mayor and four Trustees. The Board is the legislative body responsible for managing Village operations. The Mayor is the chief executive officer. The Village Treasurer (Treasurer) is appointed by the Mayor, subject to Board approval, and is the Village's chief fiscal officer. The former Treasurer left Village employment in April 2012, prior to the start of our fieldwork.

Scope and Objective

Our objective was to examine the Board's oversight of Village financial activities and the Treasurer's duties for the period January 1, 2009 to July 31, 2012. Our audit addressed the following related questions:

- Did the Treasurer properly perform the duties of her office and make only appropriate and supported payments from Village funds?
- Has the Board provided adequate oversight of financial operations and the Treasurer's duties to safeguard Village assets?

Audit Results

The Board did not provide sufficient oversight of the financial duties performed by the former Treasurer, allowing the apparent misappropriation of over \$59,000 in Village funds without detection. This included over \$46,000 of inappropriate cash disbursements and almost \$13,000 of inappropriate payroll payments. This misappropriation of Village funds has been referred to law enforcement officials for investigation.

The misappropriation included \$11,484 in purchases paid with 36 petty cash checks, 37 electronic disbursements to non-Village vendors totaling \$11,596, gasoline credit card purchases totaling \$11,348, 46 disbursements totaling \$7,432 to an office supply company, 15 payments totaling \$3,404 to a mail order company, and six other disbursements totaling \$1,025 lacking a Village purpose. The former Treasurer's payroll records were also altered, resulting in her being paid an additional \$12,862.

This occurred because the Board allowed the former Treasurer to perform all cash disbursement duties with no oversight. The Board did not review the bank statements or the bank reconciliations. Further, the former Treasurer did not maintain accurate financial records. We found that 21 disbursements totaling \$7,944, paid in the 2011-12 fiscal year, had payee information that did not match the payee information on the Village accounting records.¹

In addition, the Board did not audit and approve claims prior to payment and did not provide for an audit of the former Treasurer's financial records for the fiscal years ended February 28, 2011 and February 29, 2012. This lack of required oversight allowed the misappropriations to remain undetected for several years. Further, the Board did not require the former or current Treasurer to provide monthly financial reports for monitoring cash flow and fund balance and, therefore, was unable to adequately manage the Village's operations and fiscal health. Although the Board did not pass a resolution establishing a petty cash fund, the former Treasurer issued and cashed 36 petty cash checks that averaged approximately \$340 each.

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 agreed with our recommendations and indicated that they have taken, or plan to take, corrective action.

¹ These disbursements are included in the misappropriation total.

Introduction

Background

The Village of Old Field (Village) is located in the Town of Brookhaven in Suffolk County, and has a population of approximately 900. The Village provides various services to its residents, including public safety, fire protection, street maintenance, snow removal, and general governmental support. Village general fund expenditures for the 2011-12 fiscal year were approximately \$976,000. The Village budget is funded primarily with real property taxes.

The Village is governed by an elected Board of Trustees (Board) comprising a Mayor and four Trustees. The Board is the legislative body responsible for managing Village operations. The Mayor is the chief executive officer. The Board also is responsible for designing and implementing internal controls to safeguard Village assets from loss or misuse.

The Village Treasurer (Treasurer) is appointed by the Mayor, subject to Board approval, and is the Village's chief fiscal officer. It is the Treasurer's responsibility to receive and disburse all Village moneys, process and record payroll, maintain the Village's accounting records, and prepare and distribute monthly financial operating reports to the Board.

The former Treasurer was hired on May 20, 2008 as the Deputy Clerk. She was subsequently appointed Treasurer on January 13, 2009 and left Village employment in April 2012, prior to the start of our fieldwork.

Objective

Our objective was to examine the Board's oversight of Village financial activities and the Treasurer's duties. Our audit addressed the following related questions:

- Did the Treasurer properly perform the duties of her office and make only appropriate and supported payments from Village funds?
- Has the Board provided adequate oversight of financial operations and the Treasurer's duties to safeguard Village assets?

Scope and Methodology

We examined the Village's financial records for the period March 1, 2011 to July 31, 2012. We extended the scope of our audit to review prior financial information back through January 1, 2009.

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 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 agreed with our recommendations and indicated that they have taken, or plan 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.

Treasurer's Duties

Local government officers, whether elected or appointed, act as public servants and are responsible for carrying out the functions of their positions in a forthright and honest manner. The Treasurer is the Village's chief fiscal officer and is responsible for the accurate and complete accounting of all moneys received and disbursed from Village funds, initiating purchases, reconciling bank statements, and maintaining all financial records. Additionally, the Treasurer is responsible for paying claims from vendors requesting payment for services rendered or materials furnished to the Village and for processing payroll and maintaining all related financial records. With limited exceptions, the Treasurer is not authorized to make payments until claims have been audited and approved by the Board and an abstract of approved claims is certified by the Village Clerk for payment. The Treasurer must maintain complete and accurate disbursement records which are the basis for the monthly reports provided to the Board to assess the Village's financial operations.

It is essential that the Village establish adequate internal controls over accounting activities to ensure that all transactions are accurately accounted for and are for appropriate Village business. Key accounting functions must be adequately segregated to the extent possible given the size and complexity of the Village's operations. When it is not feasible to adequately segregate accounting functions, the Board should implement compensating controls, such as increased oversight.

The Board assigned incompatible duties to the former Treasurer and failed to implement oversight procedures that might have mitigated the related risk. The former Treasurer controlled the Village's accounting records, handled the Village's banking, and processed the Village payroll, including her own compensation, with no independent review or oversight. Further she was allowed to perform bank reconciliations with no independent review. As a result of these control weaknesses, \$46,289 of Village funds was misappropriated. In addition, the former Treasurer's payroll records were altered, resulting in her receiving \$12,862 in inappropriate compensation. This misappropriation of Village funds has been referred to law enforcement officials for investigation.

Misappropriation of Village Funds

During the audit period, the Village made 1,605 non-payroll disbursements totaling \$2,827,787 (1,528 by check and 77 electronically).² Weaknesses in the Village's internal controls have resulted in the misappropriation of Village funds totaling \$46,289.

Petty Cash – The largest misappropriation of Village funds was accomplished by issuing petty cash checks. From March 2009 through March 2012, the former Treasurer issued and cashed 36 petty cash checks totaling \$12,196. Eleven of these checks included \$712 in receipts that appeared to be for valid Village business. The remaining \$11,484, associated with all 36 checks, was either unsupported or supported with receipts that were unrelated to any Village business. For example, a petty cash check dated December 27, 2011 for \$399, cashed by the former Treasurer, was supported by eight original receipts totaling \$303, all for postage. The eight receipts had the tops cut off so the post office where the transactions occurred was not identified. Further, the receipts included destinations and mail types clearly unrelated to Village business; for example, a three-pound air mail package sent to France, a 13-pound priority mail box sent to Portland, Oregon, and a four-pound parcel post box sent to Costa Rica. In addition, 22 of the 36 checks, totaling \$7,247, had a questionable endorsement signature on them. Only the Mayor and Deputy Mayor are authorized to sign checks. Both officials told us that the signature endorsing these 22 checks was not theirs. The former Treasurer confirmed that she cashed all 36 checks, but does not remember who gave her the supporting receipts or whom she gave the money to, and told us that she does not know who signed the checks.

Non-Village Vendors – We also identified 37 electronic disbursements totaling \$11,596 made from the Village's checking account to seven vendors who did not do business with the Village. For these payments, there was either no documentation available or what was available was unrelated to the payment. For example, eight payments totaling \$2,633 made to a third-party payment service and four payments totaling \$655 paid to an Internet retailer lacked any supporting documentation. Five payments totaling \$920 made to a wireless phone service provider and three payments totaling \$523 to an electric company were all credited to non-Village accounts. Even though the former Treasurer told us that she was the only individual with access to the accounting records, she claimed not to know who made these payments or who recorded them in the Village's accounting records.

² Funds transferred electronically from the Village's checking account to a vendor's bank account

Gasoline Credit Cards – The Village uses credit cards from two vendors to obtain fuel for its two public-safety vehicles. The Village’s senior code enforcement officer is responsible for controlling all credit cards and reviewing all credit-card billing statements. According to Village officials, the Village had a total of six cards, three from each vendor. However, our review of the credit-card billing statements from the vendors identified eight cards (four from each vendor) with the additional two cards assigned to the former Treasurer. Both the Mayor and senior code enforcement officer told us they were unaware of the existence of these additional two cards. Questionable expenditures totaled \$11,348 and resulted from the two gasoline credit cards assigned to the former Treasurer. While the former Treasurer confirmed that she made all the credit-card payments, she said she did not make these purchases and did not know why these cards were assigned to her name or who made the purchases. There have been no purchases made using these cards since the former Treasurer left Village service.

Office Supply/General Merchandise – A total of 46 payments for \$7,432 made to an office supply company were either unsupported or appeared unrelated to Village business. Purchases included packaged foods and laundry supplies, a digital camera, and DVDs of children’s movies. Further, according to the vendor invoices, 41 of the 46 payments, totaling \$7,019, had a “Ship To” address of the former Treasurer’s home. While the former Treasurer confirmed that she did make all of these payments, she claims to have been unaware that the “Ship To” address was her home address and stated she did not receive any of these shipments.

Mail-Order Catalog Company – We found 15 payments totaling \$3,404 made to a mail-order catalog company. The Village has no valid business with this company and the Mayor confirmed he was unaware of these payments. Examples of items purchased include an air mattress, children’s clothing, cookbooks, and New York Yankees baseball paraphernalia. The former Treasurer told us that she did not make these purchases and that, while she was the only individual with access to the accounting records, she does not know who made these payments or how they ended up in the Village’s accounting records.

Other Disbursements – Six other disbursements totaling \$1,025 were either unsupported or had supporting documentation that was unrelated to Village business. These included three payments totaling \$523 to the electric company for a non-Village account, one payment for \$88 to the postal service with no support, one payment for \$276 to the former Treasurer, also with no supporting documentation, and one payment for \$138 to a wireless phone service provider for a non-Village account. Further, we were unable to determine who signed

the check written to the wireless phone service provider; both the Mayor and Deputy Mayor told us that the signature endorsing the check was not theirs. The former Treasurer stated that these non-Village accounts were not hers and that she did not know whose they were or how they ended up in the Village's accounting records.

A total of \$46,289 of Village funds was misappropriated over several years because of poor internal controls over the Village's accounting records and cash assets. Further, Village bank reconciliations were altered but those alterations were not detected because there was no independent review (see Bank Reconciliations). This significant lack of internal controls, combined with inadequate oversight by the Board, allowed the misappropriations to occur and remain undetected.

Extra Payroll Compensation

Written payroll policies and procedures are essential to establish Board-authorized salary and benefits for all employees, and to inform employees with payroll processing duties about their responsibilities. Controls over payroll processing, including segregation of duties and regular monitoring, help ensure compliance with these policies and procedures. When the payroll functions of authorization, recordkeeping, and payroll custody are performed by the same person with no compensating controls in place, that individual can make and conceal improper payments. Management monitoring of payroll processing is essential to help prevent or detect errors and improper payments.

The Board assigned incompatible duties to the former Treasurer and failed to implement oversight procedures that might have mitigated the related risk. The former Treasurer controlled the Village's accounting records, handled the Village's banking, and processed the Village payroll, including her own compensation, with no independent review or oversight. Further she was allowed to perform bank reconciliations with no independent review (see Bank Reconciliations).

Village employees complete daily timesheets identifying time in, time out, and total hours worked. These time records are then approved by either an immediate supervisor or another employee. At the end of a two-week pay period, timesheets are provided to the Treasurer who reports the information by phone to the Village's payroll service company. Because all Village employees receive their wages through direct deposit, there are no checks to distribute. The Treasurer receives a payroll journal from the payroll service company which confirms all amounts paid and to whom. The Treasurer confirms this information and posts it to the accounting software. There is no further review by any independent individual or by the Board. As a result of this significant control weakness we reviewed the former Treasurer's compensation.

We reviewed all 87 payroll payments totaling \$64,693 paid to the former Treasurer from January 2009 through April 2012 and found she was improperly paid \$12,862 because she received 58 payroll checks that included 607 hours not worked. A comparison of the former Treasurer's timesheets to bi-weekly payroll journals shows that the hours were altered on 19 timesheets after they were reviewed and approved.³ For example, the former Treasurer's timesheet for the May 27, 2011 pay date was approved with a total of 23 hours worked. Subsequently, using correction fluid, the timesheets were altered to increase the hours to a total of 33. Eight other timesheets supported fewer hours than were actually paid. For example, the September 16, 2011 payroll compensated the former Treasurer for 36 hours, but her timesheet showed only 24 hours worked, 12 of which are questionable because they were added to the timesheet after supervisory approval. As another example, the January 7, 2011 payroll compensated the former Treasurer for 34 hours, but her timesheet showed only 14 hours worked, of which 1.5 hours are questionable because they were purportedly worked on a Sunday when the Village was closed. Lastly, three of the former Treasurer's timesheets had no supervisory approval and nine had signatures of questionable authenticity.

Because the former Treasurer performed incompatible duties with no independent review or oversight, she was able to receive \$12,862 in compensation to which she was not entitled, without detection.

Bank Reconciliations

Bank reconciliations should be performed by an employee who does not have custody of or access to bank accounts or cash and who does not authorize, record, or adjust cash receipt or disbursement transactions. Where it is not possible to segregate these duties, accounting entries and bank reconciliations should be reviewed by a supervisor, or a designated member of the governing board can serve in a supervisory role over the accounting function, providing a compensating control. An employee who controls all phases of the accounting function can potentially disguise a theft of cash or the issuance of a fraudulent check by altering accounting entries or preparing fictitious bank reconciliations.

We reviewed 86 bank statements for the general fund account and the trust and agency account for the audit period, none of which was reviewed by the Board or any other Village official. Ten of the bank statements were not originals but were copies that had been altered to omit data. The bank statements were altered by either whitening out the description for the transactions or eliminating the entire transaction section of the bank statement. As a result, certain payments to vendors

³ The former Treasurer's timesheets were reviewed and signed by one of three individuals (the Village Clerk, the Justice Court Clerk, or the Village Administrator) depending on who was available.

for non-Village business were concealed and the Village did not have the original documents for our review. For example, the August 2011 bank statement attached to the bank reconciliation was not an original; it was a copy with the transaction detail section removed and a page was missing. The statement we obtained directly from the bank showed that the copy available at the Village was altered to remove 33 lines of transaction detail which included questionable payments to credit card companies and banks the Village did not conduct business with. We obtained all altered and missing documents from the bank for review and found that 30 of the 86 bank reconciliations did not balance.

Bank statements could be altered because the Board did not require them to be provided at monthly Board meetings or to any other individual independent of the reconciliation process. This control deficiency, together with the Board's failure to segregate the former Treasurer's duties or institute compensating controls, enabled misappropriations to remain undetected over several years.

Financial Records

The Treasurer must maintain complete, up-to-date, and accurate records, including cash disbursement journals which accurately identify individual transactions. Timely, sufficient, and accurate accounting records are essential for the preparation of the appropriate financial reports that help the Board adopt annual budgets, monitor and control financial operations, and assess the Village's financial condition.

The Village maintains electronic financial records, which allows disbursements to be posted when checks are printed. However, we were told that the former Treasurer did not use this software function. Instead, she was allowed to use a word processing program to print all checks and then manually enter the disbursement information into the software.

During the 2011-12 fiscal year, the Village made 516 non-payroll disbursements totaling \$835,836 of which 452 were paid by check and 64 were paid electronically. We reviewed all of these disbursements and found that the former Treasurer did not properly perform the duties of her office and maintain accurate financial records. On 21 of the 516 disbursements, totaling \$7,944, the payee information on the Village accounting records did not match the actual payee. For example, eight disbursements totaling \$3,431 were identified on the accounting records as being paid to the Village building inspector. However, bank records confirm that these payments were actually made payable to petty cash, credit-card companies, or banks.

The former Treasurer had sole responsibility for the custody of the Village's accounting records and the Village's cash assets. This, combined with inadequate oversight by the Board, allowed the errors to occur and remain undetected. Ultimately, about \$59,000 was misappropriated because of fraudulent payroll and cash disbursement transactions. The lack of timely and accurate financial information hampers the Board's ability to make sound financial decisions and allowed errors and irregularities to occur, and go undetected and uncorrected.

Recommendations

1. The Board should take appropriate action to recover all misappropriated moneys and improper payroll payments.
2. The Village should contact the fuel vendor and cancel the unaccounted-for credit cards.
3. The Treasurer should maintain complete and accurate cash disbursement records. The Board should monitor the Treasurer's compliance with this requirement.
4. The Board should develop, implement, and monitor comprehensive policies and procedures over the processing of payroll and approval of payroll transactions. Procedures should ensure a proper segregation of duties or provide a sufficient mitigating control.
5. The Board should appoint someone not involved in the cash process to reconcile the bank statements on a monthly basis.
6. The Board should review the bank statements and reconciliation on a monthly basis. All inconsistencies should be questioned.
7. The Treasurer should maintain adequate, timely, and reliable financial records and reports. The Board should monitor the Treasurer's compliance with this requirement.
8. The Treasurer should correct all inaccurate payee information on the Village accounting records.

Fiscal Management

The Board is responsible for overseeing the Village's financial affairs and safeguarding its resources. These duties include establishing a system of internal controls to provide reasonable assurance that cash and other resources are properly safeguarded, transactions are authorized and properly recorded, and financial reports are accurate and reliable. The Board must ensure either that no individual controls all aspects of financial transactions, or it must implement compensating controls to mitigate risks. The Board is also required to perform, or provide for, an annual audit of the Treasurer's records and reports.

The Board did not exercise appropriate oversight of the Village's financial activities. The Board has not established an effective system of internal controls to ensure that all transactions are properly recorded in the Village's records, properly audited before payment, and properly audited on an annual basis. The former Treasurer was able to perform all cash disbursements duties without oversight. As a result, the Board allowed an environment to exist where the former Treasurer was able to conceal an apparent misappropriation of Village assets without the Board's detection.

Audit of Claims

Village Law requires the Board to audit all claims against the Village prior to the Treasurer paying them. It is essential for Board members to conduct a thorough review of each claim to verify that it represents a proper and valid charge, the purchase was properly authorized, and that each claim is itemized and supported with a detailed receipt for the goods or services purchased, and evidence confirming the goods or services were received. When a local government has a strong claims auditing process, the control consciousness of its staff is enhanced because officers and employees are aware that a careful review of claims will occur before public funds are disbursed.

The Village paid claims totaling approximately \$2.8 million during the audit period January 1, 2009 through July 31, 2012. Village officials told us that the Board does not audit the claims, nor does it receive an abstract⁴ of claims for approval. Claims are simply processed and paid by the Treasurer after approval from the Mayor.

We reviewed all 1,605 claims paid during the audit period to determine whether they were legitimate and proper charges against the Village, and whether receipt of goods and services was documented, purchases

⁴ A list of claims, which includes the amounts claimed, the account codes, and the fund to be charged

were properly authorized, invoices were properly itemized, and whether invoice amounts agreed with payment amounts. As noted in the previous section of this report, the Village processed 178 non-payroll payments totaling \$46,289 during the audit period that were either unsupported or appeared unrelated to Village business.

We found no documented evidence that the Board was aware of, audited, or approved any of the checks that the former Treasurer prepared during the audit period. Had the Board performed even a cursory review of claims, it would have been alerted to these questionable transactions.

The failure to audit and approve claims increases the risk that the Village will make incorrect payments to ineligible parties, pay for items that are not necessary and appropriate, pay for goods and services that were not received as ordered, or make errors when paying for items. The failure to audit claims resulted in the misappropriation of \$46,289 over the course of several years without detection.

Annual Audit

Village Law requires that the Board annually audit the Treasurer's records and reports, or cause them to be audited by a Village officer, employee or an independent auditor. Indications that an audit was performed should be entered in the Board's minutes. This annual audit provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's fiscal procedures. Audit results can also help the Board to monitor the performance of the Treasurer who has been entrusted with recordkeeping and other financial responsibilities. The audit of these records provides independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded, and cash has been properly accounted for.

The last audit completed of the Treasurer's records and reports was for the fiscal year ended February 28, 2010. The Board did not audit, or cause to be audited, the financial records of the Treasurer for the fiscal years ended February 28, 2011 and February 29, 2012.

According to the Mayor neither he nor the Board was aware that auditing the Treasurer's records and reports was required by Village Law. He acknowledged that they were aware that the Justice Court had to be audited but, were not aware that an audit of the Treasurer's books was a requirement. In 2010, the Board decided to stop the audits for financial reasons.

The Board's failure to perform an annual audit diminishes its ability to effectively monitor the Village's financial operations and resulted in the Board's failure to detect the misappropriation of Village funds.

Petty Cash

Village law allows the Board to establish, by resolution, a revolving petty cash account. The petty cash account continues to exist from year to year until it is abolished by resolution. All purchases should be for supplies or services furnished to the Village where the terms call for cash payment to be made upon delivery. All requests for petty cash replenishments should be thoroughly reviewed. A list of all expenditures made from the petty cash account, together with all supporting receipts, must be presented to the Board for review and approval.

The Village did not pass a resolution to establish the petty cash fund. The former Treasurer issued and cashed 36 petty cash checks⁵ totaling \$12,196 (approximately \$340 per check). Even though the majority of the petty cash claims had sealed envelopes attached to the voucher with receipts inside, these envelopes had never been opened and in most cases the receipts were not related to the petty cash voucher they were attached to. For example, a petty cash check dated August 2, 2011 for \$354.60, cashed by the former Treasurer on that same date, was supported by 11 original receipts, all postage. Review of the receipts confirmed the following:

- One receipt totaling \$96, for the Village's annual post office box fee, showed that it was paid by check, not cash. The receipt was dated June 27, 2011. Review of the Village bank statement from June 2011 confirmed that this expenditure was paid by Village check.
- One receipt totaling \$44 was dated April 8, 2010, one year and four months prior to the date of the petty cash check.
- Nine other receipts have destinations and mail types clearly unrelated to Village business such as media mail sent to Denver, Colorado; a 14 pound parcel mailed to Los Angeles, California; and a 30 pound priority mail box sent to Elmer, New Jersey. The Village Clerk confirmed these types of mailings were not related to Village business.

Financial Reports

The Board needs complete, accurate, and current financial information to effectively monitor the Village's financial operations and to make informed decisions in preparing the annual budget, monitoring revenues and expenditures, and modifying the budget during the

⁵ These checks were drawn from the general fund checking account.

fiscal year. The Board must take an active role in overseeing Village operations, and ensure it receives the timely and accurate financial information it needs to do so.

We found that Board members did not receive, or request, adequate financial information from the former or current Treasurers. Although the current Treasurer provides the Board with a monthly budget status report, these reports were not complete. The current Treasurer told us that if an expenditure or revenue was not a part of the original adopted budget, it is not added to the report; therefore, in some instances the report is missing expenditures that actually occurred or revenues that were actually received. Further, the former and current Treasurers did not provide the Board with cash flow schedules, periodic trial balances, bank reconciliations, or fund balance projections showing current financial condition. Therefore, Board members are not adequately informed of the Village's fiscal affairs.

The Board is unable to adequately monitor and manage Village operations if it is lacking timely and accurate monthly financial reports. The lack of periodic reporting of key financial information diminishes the Board's ability to monitor and manage the Village's financial resources and increases the risk that errors and irregularities may occur and, as was the case, go undetected and uncorrected.

Recommendations

9. The Board should audit and approve all claims prior to payment to ensure they contain sufficient supporting documentation and represent actual and necessary Village expenses.
10. The Board should audit, or cause to be audited, the financial records and reports of the Treasurer on an annual basis, as required by law.
11. If the Board intends to continue using a petty cash fund, it should pass a resolution to establish a revolving petty cash account, as required by law.
12. The Treasurer should present the list of expenditures from the petty cash account, together with the supporting receipts, to the Board for a thorough review before reimbursing the fund.
13. The Board should monitor financial activities by requiring and reviewing detailed monthly financial reports that contain sufficient and appropriate information to enable informed decisions in a timely manner regarding financial operations. These reports should include cash balances, all cash receipts and disbursements made during the month, a comparison of actual revenue and expenditures to budget amounts, a fund balance projection, and bank reconciliations with copies of the bank statements.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

6-24-13
2013m-044



Lynda A. Howell
Village Clerk
Andrea Podolsky
Treasurer

MAYOR
Michael S. Levine
TRUSTEES
Ted M. Rosenberg
Deputy Mayor
Streets / Roadside Commissioner
Stephen W. Shybunko
Fire and Special Projects Commissioner
Jeffrey S. Owen
Parks & Buildings Commissioner
Gail S. Habicht
Environmental Commissioner

Village of Old Field

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June 18, 2013

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 11236

Re: Village of Old Field Audit Response/Corrective Action Plan

Dear Ladies/Gentlemen:

On behalf of the Village of Old Field (hereinafter "Old Field"), I submit this audit response letter and Corrective Action Plan to address the preliminary draft findings as outlined in report 2013M-44 covering the period of January 1, 2009-July 31, 2012.

Initially, please be advised that the Board of Trustees (hereinafter the "Board") of Old Field accepts the findings as contained in the foregoing report.

The Board will immediately take (or has already taken) the following steps to address the preliminary draft findings:

1. The Board has already notified Old Field's insurance carrier, Travelers, of the theft of approximately \$59,000 by ex-Treasurer Andrea Brosnan, and is presently seeking reimbursement of \$50,000 (the available coverage) under the employee theft portion of the applicable policy of insurance.
2. The Board is in the process of cancelling all gasoline cards issued to Old Field by Shell and Gulf, and is in the further process of arranging for the purchase of gasoline for Old Field's vehicles from the Setauket Fire District. This will eliminate any possibility of the improper/unauthorized purchase of gasoline by employees of Old Field.
3. The Treasurer of Old Field will circulate to the Board prior to each work session or village meeting (held monthly, except for the month of August) the following items:

MAYOR
Michael S. Levine

TRUSTEES
Ted M. Rosenberg
Deputy Mayor
Streets / Roadside Commissioner

Stephen W. Shybunko
Fire and Special Projects Commissioner

Jeffrey S. Owen
Parks & Buildings Commissioner

Gail S. Habicht
Environmental Commissioner



Lynda A. Howell
Village Clerk

Andrea Podolsky
Treasurer

Village of Old Field

Box 2724

Setauket, New York 11733-0852

website: www.oldfieldny.org

e-mail: villageclerk@oldfieldny.org

Tel: 631-941-9412

Fax: 631-941-9440

- a. A Treasurer's Report containing a record of all expenses incurred by Old Field to date (and comparing it with all expenses incurred to date in the previous year);
 - b. A check register showing every check written the prior month, the check recipient, and the amount of the check
 - c. A list of all expenses by vendor for the previous month; and
 - d. Spreadsheets reflecting the balances on hand in Old Field's general fund (checking), trust and agency, money market, capital and ways & means accounts.
4. The balances on hand in Old Field's general fund (checking), trust and agency, money market, capital and ways & means accounts will be reconciled monthly with the corresponding bank account statements.
5. Presently, employee time cards are completed daily and submitted to the Village Treasurer at the end of each two-week pay period. All employee time cards are signed by each employee, and then verified by a different employee for their accuracy. The hours for each employee are then called into the payroll company by the Village Treasurer. The payroll cards are then given to the Village Clerk. The Village Clerk shall be the only person authorized to open the envelopes sent to Old Field by the payroll company. The Village Clerk shall be the only person authorized to verify that the hours on the employees' time cards match the payroll journal submitted by the payroll company. The Village Treasurer will verify that Village Clerk's time cards match the payroll journal.
6. Bank statements will only be opened at the work sessions or the monthly meetings, and only by a member of the Board. The signatures contained on each check in the various bank statements will be verified by the purported signer. Following that, the balances on hand in each bank statement will be reconciled with the balances on hand in the above reports distributed by the Treasurer to the Board on a monthly basis.

MAYOR
Michael S. Levine

TRUSTEES
Ted M. Rosenberg
Deputy Mayor
Streets / Roadside Commissioner

Stephen W. Shybunko
Fire and Special Projects Commissioner

Jeffrey S. Owen
Parks & Buildings Commissioner

Gail S. Habicht
Environmental Commissioner



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7. The Treasurer, as outlined in ¶ 4 above, will prepare and distribute monthly to the Board a Treasurer's Report; a check register showing every check written the prior month, the check recipient, and the amount of the check; a list of all expenses by vendor for the previous month; and spreadsheets reflecting the balances on hand in Old Field's general fund (checking), trust and agency, money market, capital and ways & means accounts.

8. The Treasurer will report all inaccuracies, inconsistencies or concerns to the Board immediately.

The foregoing response and Corrective Action Plan has been agreed upon by the Mayor and Trustees of the Village of Old Field, as noted by their signatures below.

Very truly yours,

MICHAEL S. LEVINE
Mayor
ML:yh

TED M. ROSENBERG
Trustee

STEPHEN W. SHYBUNKO
Trustee

JEFFREY S. OWEN
Trustee

GAIL S. HABICHT
Trustee

MAYOR
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June 26, 2013

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 11236

Re: Village of Old Field Supplemental Audit Response/Corrective Action Plan

Dear Ladies/Gentlemen:

On behalf of the Village of Old Field (hereinafter "Old Field"), I submit this supplemental audit response letter and Corrective Action Plan to address the preliminary draft findings as outlined in report 2013M-44 covering the period of January 1, 2009-July 31, 2012.

The Board of Trustees of Old Field will immediately take (or has already taken) the following additional steps to address the preliminary draft findings:

1. The Board of Trustees is now requiring that all claims be approved by a simple majority (three-fifths) of the Board, and if so approved, those claims will need the written approval (i.e., signatures) of those on the Board authorizing the payment of same. Only those claims containing sufficient supporting documentation and representing actual and necessary Old Field expenses will be approved of.
2. As required by law, the Board will annually conduct an audit of the financial records and reports of the Old Field Treasurer.
3. The Board shall no longer maintain a petty cash fund, or authorize petty cash payments or expenditures.
4. The Board shall monitor Old Field's financial activities on an ongoing basis by requiring and reviewing detailing monthly financial reports containing sufficient and appropriate information to enable the Board to make informed decisions in a timely manner regarding Old

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Field's financial operations. These reports will include the balances on hand in Old Field's general fund (checking), trust and agency, money market, capital and ways & means accounts, cash receipts and disbursements during the month, and will be reconciled monthly with the corresponding bank account statements. These reports will contain a comparison of actual revenue and expenditures to budgeted amounts, and fund balance projections.

Very truly yours,

MICHAEL S. LEVINE
Mayor
ML:yh

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to review Board oversight over financial operations and the Treasurer's duties to ensure Village assets were safeguarded, and to determine if the Treasurer properly performed the duties of her office and made only appropriate and supported payments from Village funds for the period January 1, 2009 to July 31, 2012. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We performed an initial assessment of the internal controls in place, including segregation of duties over the cash disbursement and payroll processes, to determine the overall effectiveness.
- We interviewed Village officials and employees and reviewed pertinent documents, such as Board minutes and Village policies.
- We interviewed the current Treasurer to gain an understanding of the procedures used to account for the Village's financial operations, reconcile bank accounts, and prepare monthly and annual financial reports.
- We interviewed the Mayor and Deputy Mayor to determine if financial reports were distributed to and/or reviewed by the Board and to determine if the required annual audit of the Treasurer's records was conducted.
- We reviewed and analyzed available accounting records and/or reports, including general ledgers, cash disbursement journals, and bank statements along with canceled check images.
- We requested original bank records and original vendor invoices from third parties for all documents that appeared altered or were incomplete.
- We examined all bank statements along with bank reconciliations for the audit period and reviewed the propriety of all non-check disbursements.
- We examined all check images for unusual or unknown endorsement signatures.
- We traced all canceled checks for the audit period from the Village general fund account and trust and agency account to the original invoices to determine that they were for legitimate Village purposes.
- We reviewed all payroll payments, along with corresponding timesheets, to the former Treasurer during the audit period to determine the total amount of overpayments.
- We reviewed all fuel credit-card transactions to determine if purchases were appropriate and for valid Village expenditures.

- We reviewed all petty cash disbursements and supporting documentation to determine if they were for valid Village expenditures.
- We interviewed the former Treasurer to inquire about the anomalies in the Village financial records and the questionable transactions in the general and trust and agency funds that occurred during her tenure.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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