



Village of Lindenhurst Claims Processing

Report of Examination

Period Covered:

March 1, 2015 – May 31, 2016

2016M-345



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2016

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 of Trustees 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 Lindenhurst, entitled Claims Processing. 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 New York State 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 Lindenhurst (Village) is located in the Town of Babylon, Suffolk County, and has approximately 27,000 residents. The Village provides various services to its residents, including a building department, justice court, code enforcement and public works. The Village's 2016-17 general fund budgeted appropriations were approximately \$12.6 million, funded primarily with real property taxes, State aid and user fees.

The Village is governed by an elected Board of Trustees (Board), composed of a Mayor and four Trustees. The Board is responsible for the Village's general management and financial affairs, including auditing and approving claims. The Mayor serves as the chief executive officer and is responsible for the Village's day-to-day management. The Village Clerk-Treasurer, who is appointed by the Board, serves as the chief financial officer and is responsible for maintaining the accounting records and overseeing the collection, custody and disbursement of Village funds.

Objective

The objective of our audit was to examine the Village's claims processing procedures. Our audit addressed the following related question:

- Did the Board develop an adequate process to ensure that claims were accurate, valid, properly supported and for legitimate Village purposes?

Scope and Methodology

We examined the Village's claims audit process for the period March 1, 2015 through May 31, 2016.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they planned to implement 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 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-Treasurer's office.

Claims Processing

The audit and approval of claims is a critical element of the Board's duties and responsibilities. Pursuant to New York State Village Law (Village Law), all claims must be audited by the Board as a whole,¹ a Board-appointed claims auditor or a formally Board-appointed committee.² The Board is responsible for ensuring that every claim is subject to an independent, thorough and deliberate review and should document its approval, by resolution, in the Board minutes. A proper audit ensures that each claim is itemized and accompanied by an invoice or receipt and that each claim is a proper and valid charge against the Village. A thorough audit also includes making sure that each claim contains sufficient supporting documentation and that purchase orders are prepared and approved before goods or services are purchased. Additionally, such an audit should also determine whether the officer or employee who gave rise to a claim approved it, usually by signing the claim attesting that goods and services were received and that the charges are correct.

Purchase orders should be issued prior to purchasing goods or receiving services. Using purchase orders helps control Village expenditures by ensuring that purchases are properly authorized and preapproved and that adequate funds are available. A confirming purchase order is a purchase order issued after the goods or services have already been ordered or received. There is limited assurance that confirming purchases are made at the best price and quality and are for legitimate and authorized Village purposes.

While the Board, by resolution, generally approved abstracts of claims,³ it did not perform an effective claims audit or establish an adequate process to ensure that transactions were properly authorized and approved or that claims were for proper Village purposes. During our audit period, the Village paid 5,987 claims, totaling \$12,315,993.

Claims are initiated when a department head submits a requisition form to the purchasing agent, who converts the requisition to a purchase order. Claims for capital projects, utility bills and certain repairs use a "green voucher" in place of a requisition form; although

¹ The Board may, by resolution, authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. However, the Treasurer must present such claims for audit at the next regular Board meeting.

² The Board, by resolution, must first empower a separate committee to undertake the claims audit function.

³ An abstract is a list of claims presented to the Board for approval.

green vouchers are often submitted after a purchase is made, capital project purchases require prior Board approval by resolution that is affixed to the green voucher. Once a purchase is made, the claim is assembled with the purchase order or green voucher, invoice and any supporting documentation and given to the Deputy Treasurer, who then prints the checks and related abstract. Claims are then audited and approved by the Clerk-Treasurer, who also signs the disbursement checks to pay the claims.

The Board subsequently reviews the abstract that shows the check dates, check numbers, payee names, brief descriptions and the payment amounts, but this review is incomplete. The Board does not review each claim (except for capital project related claims) to determine if the claims are properly itemized and include appropriate supporting documentation. The Clerk-Treasurer and each Board member sign the abstract and the Clerk-Treasurer documents the Board's review in the minutes. However, the Board's delegation of its claims audit responsibility to the Clerk-Treasurer was inappropriate and inconsistent with Village Law. Internal controls are compromised when the same person who audits and approves the claims for payment also signs the checks to pay those claims.

We selected and reviewed 30 claims, totaling approximately \$399,377,⁴ along with the related abstracts and Board minutes, to determine if they contained adequate supporting documentation and were for proper Village purposes. The claims contained 17 green vouchers and 13 requisitions/purchase orders. We found the following deficiencies:

- The Board, as a whole, did not audit any of these claims.
- No approved requisitions or green vouchers were attached to 18 of the claims totaling \$44,152.
- Contract rates, quotes or both were not attached to 15 of the claims vouchers totaling \$37,702.
- Eight green vouchers and four purchase orders totaling \$29,888 were dated after the related invoices had been received, indicating that they were confirming orders.

Although all claims reviewed appeared to be reasonable and legitimate, the use of confirming purchase orders circumvents internal controls and weakens the procurement and budget control process. Moreover, when the Board does not audit and approve claims prior to payment and has the same person that audits the claims sign checks, there is an

⁴ See Appendix B for detailed information on our selection process.

increased risk that the Village could pay for goods and services that are not proper Village expenditures.

Recommendations

The Board should establish an adequate claims audit process by ensuring that:

1. The entire Board conducts a thorough and deliberate audit of all Village claims or formally appoint a claims auditor or a committee to fulfill the claims audit function.
2. Each claim contains sufficient supporting documentation.
3. Village staff members comply with the Village's purchase order system by obtaining approved purchase orders (or green vouchers) in advance of any purchases, limiting the use of confirming orders to emergency situations.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



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December 1, 2016

Ira McCracken, Chief Examiner
Division of Local Government & School Accountability
Office of the State Comptroller
110 State Street
Albany, New York

Re: Draft Findings – Claims Processing, Report of Examination 2016M-345

Dear Mr. McCracken,

The Village of Lindenhurst has received and reviewed the above referenced report.

Your findings and recommendations will be taken under consideration by the Village for future implementation. We will look to continue improving our fiscal related operations to insure good, prudent and efficient management of the public's money.

Thank you for your assistance.

Sincerely,

Thomas A. Brennan
Mayor

cc: Village Board
Shawn Cullinane, Clerk-Treasurer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective and obtain valid audit evidence, we performed the following procedures:

- We reviewed Village Law to determine the Board's responsibility to audit claims.
- We interviewed Village officials and key personnel to gain an understanding of the claims audit process. Based on our interviews, we determined the Village's procedures for its claims voucher process as well as its audit, approval and payment of claims.
- We reviewed and evaluated the Villages's claims audit policies and procedures.
- We selected 30 general fund and capital project claims paid during our audit period with no expectation that more or fewer errors would occur in those claims than any other claims. We examined the claims to determine if they contained sufficient supporting documentation, complied with Board-adopted policies, contained appropriate approvals and represented proper Village expenditures.
- We obtained and reviewed all abstracts for the 30 claims tested during our audit period.
- We reviewed Board minutes and vendor contracts to determine payments' rate accuracy.

We conducted this performance audit in accordance with 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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