

Village of Oyster Bay Cove

Claims Audit

DECEMBER 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Oyster Bay Cove

Audit Objective

Determine if the Village of Oyster Bay Cove (Village) Board of Trustees (Board) ensured that claims were adequately supported, for appropriate Village purposes and audited before payment.

Key Findings

The Board did not ensure that claims were adequately supported, for appropriate Village purposes and audited before payment.

- The Board reviewed and approved warrants (list of claims) without auditing the individual claims. We reviewed 304 claims totaling \$775,633 and found that although these claims were for legitimate Village purposes, none of the claims were audited by the Board.

Key Recommendations

- Conduct a deliberate and thorough audit of claims prior to payment.
- Claims paid before audit should be limited to those authorized under Village Law and presented at the next regular Board meeting for audit.

Except as noted in Appendix A, Village officials generally agreed with our recommendations and indicated they were taking corrective action. Appendix B includes our comments on the Village's response.

Background

The Village is in the Town of Oyster Bay in Nassau County. The Village is governed by an elected Board, which is composed of four Trustees and the Mayor. The Board is responsible for the overall management and oversight of Village operations, including the audit of claims.

The Board-appointed Clerk-Treasurer is responsible for distributing, receiving and maintaining custody of Village money.

Quick Facts

2020-21 Expenditures	\$6,411,576
Claims Paid During Audit Period	\$7,595,334
Claims Reviewed	\$775,633

Audit Period

May 1, 2019 – July 31, 2021

We extended our audit scope to March 31, 2022, to review the Village's current claims audit procedures.

Claims Audit

What Is an Effective Claims Audit Process?

An effective claims audit process ensures that taxpayers' funds are being spent and handled properly, identifies conditions in need of improvement and provides oversight and review of the village's disbursements process. New York State Village Law (Village Law) Section 5-524 requires a board to audit all claims¹ against the village prior to authorizing the Clerk-Treasurer to make payment.

The board should conduct an independent, deliberate and thorough audit of every claim against the village. It is important for the board to determine whether each claim represents actual and necessary village expenditures, is supported by itemized invoices or receipts, complies with board-adopted policies, and contains evidence of receipt of goods or services and required signatures.

The Board may by resolution authorize payments in advance of audit of claims for public utility services, postage, freight and express charges. All such claims shall be presented at the next regular meeting for audit. The term public utility services shall mean electric, water, sewer and telephone services.

The Board Did Not Audit Claims

The Board does not audit claims. Instead, the Clerk-Treasurer and one Board member audit the Village claims. Each claim is signed and dated by the Clerk-Treasurer and the assigned Board member to indicate their review and approval of the claim prior to the monthly Board meeting. A warrant, which is a list of claims that includes vendor name, amount paid, check number and date, is presented to the Board during its monthly meeting. The Clerk-Treasurer attends the monthly meetings with the claims included on the warrant. The Board approves the warrants; however, the individual claims are not audited by the Board as a whole during the meetings to ensure they are for legitimate Village expenditures, properly supported and comply with Board-adopted policies.

During the audit period, the Village paid 1,465 claims, totaling \$7,595,334. We reviewed 58 claims totaling \$178,328 and concluded that none of these claims were audited by the Board. While the claims reviewed were for proper and necessary Village purposes, and were adequately supported, the absence of a deliberate and thorough audit of claims by the Board as a whole is not in compliance with Village Law. The Mayor told us that it has been the Village's practice to have to the Clerk-Treasurer and, on a rotating basis, one Board member audit the claims because he felt that this process was a better audit function as it allows a different Board member to review the claims instead of just one. He also told us that Board members have jobs outside of the Village

¹ Claims are bills or invoices submitted by vendors requesting payment for goods or services.

which makes it difficult to go to the Village Hall because of their work schedule; therefore, rotating the claims audit function allowed one Board member to audit the claims. However, the Mayor does not have the authority to circumvent the legal requirement for the Board to audit the claims and the Village's current practice results in the Board not fulfilling its statutory obligation to audit and approve claims for payment.

We found that the Village's past practice had been that the Board does not meet during the months of August and December. At the Board meetings in July and November of 2019 and 2020, the Board passed a resolution authorizing the Clerk-Treasurer to pay the invoices for the months of August and December. The claims paid during these months were listed on a warrant and presented the following respective month for the Board to authorize. The Clerk-Treasurer has responsibility for collecting, accounting, depositing, disbursing and accounting for Village funds; these responsibilities preclude the Clerk-Treasurer from being a proper individual to also perform an audit of claims.

We also reviewed 246 claims, totaling \$597,305, paid during the four months in our audit period that the Board did not meet, August and December of 2019 and 2020. Although these claims were reviewed by one Board member, they were not audited by the Board as a whole. Additionally, they were listed on warrants that were presented to the Board for authorization the following respective month after payment was made. While authorizing claims after payments have been made provides a minimal level of oversight, it does not prevent questionable claims from being paid. We found that 161 of these claims totaling \$512,278 (86 percent) were not authorized to be paid in advance of audit. The checks for the 161 claims cleared the bank before the warrants were approved by the Board.

Payments for these claims were for legitimate Village purposes and properly supported; however, when the Board does not conduct an audit of claims prior to payment, there is an increased risk that improper claims could be paid and not be detected timely.

What Do We Recommend?

The Board should:

1. Conduct a deliberate and thorough audit of claims prior to payment.
2. Limit claims paid before audit to those authorized under Village Law to be paid in advance of audit. These claims should be presented to the Board for audit at the next regular Board meeting.

Appendix A: Response From Village Officials

INC. VILLAGE OF OYSTER BAY COVE

Mayor

Charles Goulding

Deputy Mayor

Richard MacDougall

Board of Trustees

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November 1, 2022

Mr. Ira McCracken, Chief Examiner

Office of the State Comptroller

New York State Office Building

250 Veterans Memorial Building

Hauppauge, NY 11788-5533

Re. Village of Oyster Bay Cove-Claims Audit 2022-114 Audit Response and Corrective Action

Dear Mr. McCracken,

We have reviewed the Preliminary Claims Audit report prepared by your office. **As noted in your report of the 303 claims totaling \$775,633, all of the claims reviewed were for legitimate Village purposes and were properly supported. Records were provided for your review from May 1, 2019 through March 31, 2022 with no exceptions.**

It should be noted that we are responding to a Preliminary Report and during our exit conference, we did object to a number of items that we felt were not written correctly. It was our understanding that the Final Claims Audit Report may be revised for those corrections. However, since we have not received an updated report, we are responding to the Preliminary Report.

See Note 1 Page 6

Key Findings

The Key Findings should indicate what the entire Board does so that the reader of the report has complete disclosure. **The entire Board does review the warrant, which is a list of claims that includes the vendor name, amount paid, and check number.** The warrant is sent to the Board at least 24 hours before a board meeting. This allows the Board to review in detail the abstract and audit specific claims at our Board Meeting. (Note: NY State Claims Audit Reports for the Village of Clayton in 2021 and the Village of Massapequa Park in 2017 disclosed this information under Key Findings on the first page of the report.) By not including this information on the cover page of our report, it misleads the reader to believe that no review took place by the Board.

The Board Did Not Audit Claims

The individual claims have been audited by the Clerk-Treasurer and in addition (on a rotating basis) one Board member audits, reviews in detail and signs off on every claim. We noted that having the Board Members rotate the audit of claims was a better internal control audit function, so that different Board members would review the claims instead of just one. This also provides better coverage of the function, since all of our Board members have jobs outside the Village.

Note, I am a CPA and our Clerk Treasurer was a CPA in her former position, so we strive to have the proper procedures and internal controls at our Village.

The Village was not “circumventing” the legal requirement for the entire Board to review every single claim as was written in the report, but rather the Village was not aware of section 5-524 of New York State Village Law which requires the entire board to audit all claims or establish the office of auditor. We do believe that our current process was accountable and responsible. However, now that we are aware of this law, the Village intends to establish the Office of Auditor. We will do our due diligence to see how this office should be properly set up. The Village Board and our employees work very hard to carry out our duties.

Additionally, the Village would have implemented this procedure sooner, if it was brought to our attention during the State Audit.

See Note 2 Page 6

Claims Paid During Months the Village did not Meet

The Board passed a resolution that the Clerk -Treasurer can pay claims during August and December when the Board does not meet. In those months, these claims were audited by one of the Board members, in addition to the Clerk Treasurer. In the preliminary report, it stated that these claims were only audited by the Clerk-Treasurer which was not the case.

Additionally, there is segregation of duties in our Clerk’s office. The Deputy Clerk deposits the funds, enters the invoices, prepares the checks in the accounting system not the Clerk Treasurer as was written in your report. The Deputy Clerk has no check signing authority. Furthermore, all checks over \$5000 require two signatures.

As indicated in your report all of the claims that were paid in advance of the meeting were for legitimate Village purposes and properly supported .

We would also like to note that of the 161 (preliminary report corrected from 174) \$512,278 (preliminary report corrected from \$552,928) were comprised of sanitation per contract \$134,424, employee health and dental insurance of \$243,551, snow removal per contract \$9600, rent per contract \$3184 and a number of invoices which were specifically brought to the Board at a meeting prior to July or December and were approved for payment i.e Corelogic tax over payment of \$4539.62.

It has now been brought to our attention that only certain claims can be paid prior to Audit. In the future, the Village will release only those claims that can be paid in advance of the Audit as per Village Law.

We appreciate the opportunity to respond to the State Report, our Board and employees are committed to continue to maintain accurate and proper records and internal controls for the Village of Oyster Bay Cove.

Sincerely,

Charles Goulding

Mayor

Appendix B: OSC Comments on the Village's Response

Note 1

We revised the report to exclude certain claims that were authorized to be paid in advance of audit.

Note 2

In July 2022, the audit team met with the Mayor and the Clerk-Treasurer and discussed the audit findings.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and Board members to gain an understanding of the claims audit procedures.
- We reviewed 58 claims, totaling \$178,328. We selected a random sample of two checks per month from the cash disbursements journal from 2019 to 2021. We obtained the corresponding 26 claims in 2019-20 totaling \$101,216 and 26 claims in 2020-21 totaling \$65,250. We extended our audit scope to March 31, 2022, to review the Village's current claims audit procedures. We selected a random sample of two checks per month from the cash disbursements journal from January 2022 through March 2022 and obtained the corresponding six claims totaling \$11,862.
- We traced the selected checks to the corresponding warrants and to the vouchers/claims.
- We determined whether every purchase was legitimate and adequately supported.
- We determined whether the vouchers were signed by a member of the Board to indicate that the claim was audited.
- We also determined whether all warrants were approved in the monthly meetings by tracing the warrant to the monthly minutes.
- We traced all the checks to the bank statements to determine whether any check was cleared before it was approved by the Board at the monthly meeting.
- We selected the payments that were made during the months of August 2019, December 2019, August 2020 and December 2020, totaling \$653,121 which consisted of 254 claims. Eight of the those claims, totaling \$55,816, were included in our review of 58 claims and have been removed from this test. We reviewed 246 claims totaling \$597,305. We compared the date the checks cleared the bank from the bank statements to the date that the warrants were approved by the Board authorizing the payments to be made. We determined whether the payments were in accordance with Village Law 5-524 (6), which specifies the payments authorized in advance of audit.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 Village Board to make the CAP available for public review in the Village Clerk-Treasurer's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

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www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

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