



Village of Bellport Claims Processing

Report of Examination

Period Covered:

June 1, 2012 — November 30, 2013

2014M-126



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2014

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 the Village of Bellport, 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 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 Bellport (Village) is located in the Town of Brookhaven in Suffolk County and has a population of approximately 2,800 residents. The Village is governed by the Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. General fund expenditures for the 2012-13 fiscal year were \$3,133,675, which were funded primarily through real property taxes.

The Board is responsible for the general management and control of the Village's financial affairs and provides guidance through the enactment of laws, policies and procedures. The Mayor is the Village's chief executive officer and is responsible for the general administration, coordination and supervision of Village operations. The Village Treasurer (Treasurer) is the chief fiscal officer and is responsible for disbursing Village money, maintaining the accounting records and filing financial reports.

The Village's purchasing policy requires that the Village Clerk confirm that all proposed purchases for goods and services over \$850 comply with New York State Law and Village policies. Purchase order numbers must be obtained from the Village Clerk prior to purchases. Requests for purchase orders are made by department heads, should be in writing and should have at least three documented quotes attached.

Objective

The objective of our audit was to examine the claims auditing process. Our audit addressed the following related question:

- Did the Board perform a proper audit of claims and ensure that claims were properly supported prior to payment?

Scope and Methodology

We examined the Village's claims auditing process for the period June 1, 2012 through November 30, 2013.

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 is 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 findings and indicated that they have begun taking 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.

Claims Processing

The audit and approval of claims is one of the most critical elements of a governing board's duties and responsibilities. Village Law requires the Board to audit all claims against the Village and adopt a resolution approving the audited claims for payment. The resolution should document the range of claims audited and the total dollar amounts approved for each fund. Village Law requires the Village Clerk to prepare, sign and transmit to the Treasurer an order directing the Treasurer to pay the claims specified in an abstract¹ that have been audited and ordered paid by the Board.

The Board is responsible for ensuring that every claim is subjected to an independent, thorough and deliberate review and contains enough supporting documentation to determine whether it complies with statutory requirements and Village policies, and that the amounts claimed represent actual and necessary expenditures. The Board should ensure that goods and services are procured in the most prudent and economical manner and that procurements are not influenced favoritism, extravagance, fraud or corruption.

The Village uses a purchase order request form which outlines the required information and documentation to be submitted. The Village's purchasing policy requires the Village Clerk to issue purchase orders and ensure that all proposed purchases for goods and services over \$850 comply with New York State Law and Village policies prior to purchase. The policy requires that department heads request purchase orders in writing and attach at least three documented quotes. Each claim should include a purchase order which authorizes placement of an order to the vendor and, subsequently, provides a cross-reference to the vendor's invoice; the signature of the person giving rise to the claim, attesting that goods and services were received and that the charges are correct; an itemized original receipt or invoice; and documentation to allow for proper audit.

During the period June 1, 2012 through November 30, 2013, the Village paid 3,144 claims totaling \$4,407,665. We reviewed a sample of 25 claims totaling \$59,446 and related abstracts and Board minutes to determine if the claims had been properly audited and approved by the Board for payment.

None of the abstracts that we reviewed included the Clerk's signature or a statement indicating that the Board had audited the claims. In

¹ An abstract is a list of claims, which includes the amounts claimed, the account codes and the funds to be charged. Abstracts should be signed by the Clerk after approval by a majority of the Board.

addition, there is nothing to show which abstracts were approved by the Board because all Board minutes reviewed included the vague statement “Approve payment of attached bills and allow Treasurer to make necessary transfers.” Board minutes do not include sufficient information such as abstract numbers, abstract dates or the numbers and dollar amounts of claims to document which claims are authorized for payment. Furthermore, five of the 25 claims that we reviewed were not listed on any abstract.

Our review of the 25 claims totaling \$59,446 also found that each claim was deficient for one or more reasons.

- Twenty-four claims totaling \$56,242 did not have requisitions or written purchase order requests. For example, a requisition was never created for the removal of a tree and stump totaling \$850.
- Twenty-two claims totaling \$53,550 did not include purchase orders because they were never created. For example, a purchase order was not created for the renewal of municipal insurance costing \$8,690. In addition, of the three purchase orders that were created, one, for the repair of an aerator fountain costing \$3,205, was a confirming order,² meaning that the Village prepared the purchase order subsequent to the date shown on the invoice.
- Two claims totaling \$5,670 for fuel were paid even though the Village failed to advertise for competitive bids or purchase fuel under State or county contract. The Village paid the fuel vendor \$73,589 during 2012-13. These purchases were required by law to be bid. One of the checks paid to this vendor did not match the check amount shown on the abstract. We were told that the check listed on the abstract was approved by the Board; however, the Village voided this check and issued a new one for a lesser amount. The claim was never resubmitted to the Board members to make them aware of the newly issued check and allow them to approve it.
- Twenty-one claims totaling \$42,674 did not have evidence that any of the required quotes³ were solicited.

² Purchase orders should be issued prior to purchasing goods or receiving services. A confirming purchase order refers to a purchase order issued after the goods or services have already been ordered or received.

³ The Village’s purchasing policy requires three verbal quotes for goods and services over \$850 but less than \$1,500. Three written quotes are required for goods over \$1,500 but less than \$20,000 and services over \$1,500 but less than \$35,000. Village officials may not be able to obtain multiple quotes if a vendor is a sole source for a particular good or service. However, Village officials should include written justification in the claim packet.

- Seven claims totaling \$10,528 did not indicate whether the goods or services were received. For example, one claim for \$892 for athletic apparel did not include a packing slip or the signature of the department head to indicate that the goods were received.
- Four claims totaling \$6,182 were not approved by the department head who initiated the purchases; instead, they were approved by the Village Clerk. Examples include an invoice totaling \$2,500 for vessel management of a ferry and an invoice totaling \$990 for a tennis court bench. Neither voucher had the department head's signature or initials on the invoice to confirm its accuracy or approval.
- Two claims totaling \$3,800 did not include all supporting documentation. One claim totaling \$1,930 was missing three receipts and the second claim totaling \$1,870 for cleaning services was missing one week of time sheets.
- One claim totaling \$1,800 did not include itemized invoices. A vendor that provided plywood and gravel to the Village was paid \$1,800; however, the Village did not receive an itemized invoice. Instead, the claim voucher listed only an approximate amount of plywood delivered and gravel delivered "as needed."

In addition, seven of the 25 claims reviewed were paid without a written contract or agreement⁴ between the service provider and the Village. For example, \$42,988 was paid to the Village attorney during the audit period without any agreement in place. In addition, during June 2013, \$2,767 was paid to a cleaning company even though the contract had expired as of March 2013.

The deficiencies identified during our review of claims illustrate that the Board is not properly auditing claims. Consequently, the Village paid 25 claims totaling \$59,446 that did not have sufficient support to ensure that payments were made in accordance with General Municipal Law (GML) or the Village's procurement policy or were supported by appropriate documentation. As a result, there is an increased risk that payments were for goods and services that were not actual and necessary expenditures, were not actually received or were not procured in the most prudent and economical manner.

⁴ A written contract establishes the services to be provided, the time frames for delivery of services and the basis for compensation.

Recommendations

1. The Clerk should ensure that department heads use the purchase order request form and attach documentation as required by Village policy prior to issuing a purchase order.
2. The Board should conduct a deliberate and thorough audit of all claims prior to payment by the Treasurer, ensuring that they contain:
 - Requisitions or purchase order requests and purchase orders that are issued prior to the dates on the invoices,
 - Evidence of compliance with GML competitive bidding requirements and the Village's procurement policy,
 - Evidence that goods or services were received and that department heads approved and confirmed the accuracy of the claims and
 - Supporting documentation including receipts and itemized invoices.
3. The Board should ensure that valid contracts or agreements are in place for all claims paid, where necessary, to establish the services to be provided, the time frames for delivery of services and the basis for compensation.
4. The Clerk should prepare and sign an abstract of claims with a statement indicating that the claims listed have been audited by the Board.
5. The Clerk should prepare Board minutes that include abstract numbers, abstract dates or the numbers and dollar amounts of the claims.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF BELLPORT

**MAYOR
RAYMOND FELL**

**TRUSTEES
LESLIE O'CONNOR
DOROTHY TERWILLIGER
MICHAEL FERRIGNO
ROBERT ROSENBERG**



**VILLAGE CLERK
KATIE MEHRKENS**

Mr. Ira McCracken, Chief Examiner
NYS Office Bldg, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Re: Village of Bellport
Claims Processing
Report of Examination
2014M-126

Dear Mr. McCracken:

On behalf of the Board and Administration, we would like to thank the Comptroller's Office for their professionalism and their recommendations. The staff was very sensitive to our daily work responsibilities throughout the audit.

We are in agreement with the recommendations contained in your report covering the period of June 1, 2012 – November 30, 2013 and take these findings very seriously. We have begun to implement the following recommended changes:

- In October 2013 the Village Board established a procurement policy that will be strictly enforced by the Village Clerk, ensuring that the department heads are following this policy and getting the correct number of quotes.
- The auditing Board was made aware of the deficiencies on these claims and has now developed new strategies to ensure that the village remains in compliance with all guidelines and General Municipal Laws.
- The Clerk has begun to sign the abstract of claims with a statement that indicates that they have been audited by the board. This information is now part of the monthly board meeting minutes.

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- The Village of Bellport does use the New York State Bid contract for the purchasing of heating oil, gasoline, and diesel fuel; however the company that was awarded the State bid indicated that they could not deliver diesel fuel to our Ferry boat, or gasoline to our Golf Pro Shop. The Village is pursuing quotes for these two areas in order to receive the most competitive prices and be in compliance with the NYS bidding laws.

Again, we would like to thank the New York State Comptroller's office for their time and professionalism with their audit and the recommendations that were presented.

Sincerely,

✓ Raymond Fell
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board ensured that claims were properly supported prior to payment. To accomplish this, we performed an initial assessment of the internal operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash management, cash receipts, cash disbursements, claims processing, purchasing, payroll and personnel services, asset management, real property taxes, code enforcement, building department, highway department, parks and recreation department, golf course, justice court and information technology.

During the initial assessment, we interviewed appropriate Village officials to obtain an understanding of the organization and the accounting system, performed limited tests of transactions and reviewed pertinent documents, such as Village policy and procedure manuals, Board minutes and financial records and reports. In addition, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected claims processing for further audit testing. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We performed an initial assessment of internal controls in place for claims processing to determine the overall effectiveness. This included interviewing appropriate Village officials to gain an understanding of the procedures used in processing claims.
- We reviewed Board minutes and Village policies.
- We randomly selected 25 claims by reviewing payments made by the Village during the period June 1, 2012 through November 30, 2013. We filtered the data to exclude voided payments, payroll related payments, utility payments and capital payments. We filtered all payments less than \$850 and larger than \$20,000 to select payments within the Villages quote threshold. We requested original claim packets from the Treasurer and reviewed claims, invoices, receipts and check stubs, requisitions, purchase orders and contracts to determine if the support was sufficient, if the claims were audited by the Board and if the claims were for valid expenditures.
- We reviewed selected claims to determine if they were in compliance with GML and the Village's procurement policy.

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.

APPENDIX C

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