

Village of Farmingdale

Procurement, Claims Audit and Check Signing

OCTOBER 2018



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

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Report Highlights

Village of Farmingdale

Audit Objectives

Determine if:

- The Village seeks competition for professional service providers and for purchases that are below the bidding threshold.
- The Board conducts a proper audit of claims.
- The Village's check signing process is adequate.

Key Findings

- Village officials did not seek competition for nine of 10 professional service providers paid \$733,497.
- The Board did not audit individual claims.
- The Mayor does not maintain custody of his signature stamps.

Key Recommendations

The Board should:

- Procure professional services through a competitive process.
- Conduct a deliberate and thorough audit of every claim.

Except as specified in Appendix A, officials agreed with our recommendations. Appendix B includes our comments on the Village's response.

Background

The Incorporated Village of Farmingdale (Village) is located within the Town of Oyster Bay, Nassau County. The Village is managed by five elected Board members, and two of these members perform the claims auditing function. The Board appointed an Administrator Clerk-Treasurer and a Deputy Clerk-Treasurer to oversee the daily functions within the Village including the procurement and the check signing processes.

Quick Facts

2016-17 Expenditures	\$5.9 million
2017-18 Budget Expenditures	\$6 million

Audit Period

June 1, 2016 – October 31, 2017

Procurement

How Should a Village Procure Goods and Services?

New York State General Municipal Law (GML)¹ requires that local governments adopt written policies and procedures governing the procurement of goods and services not subject to the competitive bidding requirements, to help ensure the prudent and economical use of public money, facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances and to guard against favoritism, improvidence, extravagance, fraud and corruption. The procurement policy should require maintaining adequate documentation to support and verify the actions taken.

While GML permits local governments to set forth in their policies the circumstances for which the local government has determined Requests for Proposals (RFPs) will not be in the best interests of the local government, we believe using a competitive method, such as the RFP process, would help ensure that the Village obtains services upon the most favorable terms and conditions, and in the best interest of the taxpayers.

The Village Did Not Seek Competition for Professional Services

The Board-adopted procurement policy does not require the solicitation of competition before awarding professional service contracts. As a result, Village officials generally did not solicit competition, such as issuing RFPs, when procuring professional services. We reviewed claims² paid to 10 professional service providers who were paid \$760,997 during our audit period. Officials sought competition for accounting services totaling \$27,500. However, they did not solicit competition for services from nine professionals.

Figure 1: Professional Services Procured Without Competition

	Professional Service	Expenditures
1-2	Engineering (2)	\$502,107
3-4	Legal (2)	\$141,075
5	Public Relations	\$23,079
6	Doctor	\$20,465
7	Assessment	\$18,000
8	Labor Council	\$15,617
9	Bond Council	\$13,154
	Total	\$733,497

1 New York State General Municipal Law Section 104(b)

2 We reviewed 10 claims totaling \$39,499 to determine if services performed and fees charged were mutually agreed upon in written agreements or resolutions.

There was no documentation to indicate the reason for not seeking competition. Officials told us:

- The assessor was selected because the Village has been using his services for a while; therefore, the only cost to the Village is for updating the Village's records. Selecting a new assessor would not get a lower rate for the services because the Village would be charged for a reassessment.
- The attorney for tax certiorari services was selected because of his working relationship with the assessor.
- The remaining seven professionals were selected because of their expertise and quality of work.

However, the Village's failure to solicit competition for professional services may result in the Village obtaining services without the most favorable terms and conditions, and with favoritism. Further, because officials did not solicit competition, they are not certain that the rate being charged is the lowest. For example, a law firm was paid \$117,677 for providing legal services to the Village.

Village Officials Did Not Always Get Quotes

Village officials did not always obtain the number of quotes required by the Village's policy when procuring purchase and public works contracts. The policy requires that aggregate purchases over the fiscal year be considered to determine when an item requires quotations.

We selected 20 vendors who were paid a cumulative total of \$89,620 in the 2016-17 fiscal year to determine if Village officials complied with the Village's purchasing policy and found that the Village procured goods and services totaling \$65,237 from 15 of these vendors without obtaining the required number of quotes or written documentation for instances where competition is not required. For example, officials told us they did not obtain quotes for the repair of a car from an auto repair shop costing \$3,141 because the cost was reasonable. However, no competition was sought to determine reasonableness.

Although the reviewed purchases were for appropriate Village purchases and some of the purchases contained quotes, Village officials did not consistently adhere to the Village's policy and written procedures. Without adequate documentation, the Board may not be able to determine whether the policy has been complied with when it conducts an audit of claims. Therefore, the Board does not have adequate assurance that the Village is receiving the best price for the items purchased.

What Do We Recommend?

The Board should:

1. Consider revising the Village's procurement policy to ensure it provides guidance for procuring professional services through a competitive process.

Village officials should:

2. Obtain quotes as required and maintain adequate supporting documentation for verbal and written quotes as required by the Village's procurement policy.

Claims Audit

What Is an Effective Claims Audit Process?

New York State Village Law³ (Village Law), requires the board to audit all claims⁴ against the village prior to authorizing the treasurer to make payment. The board may establish the office of claims auditor or authorize a separate board of commissioners to audit only claims incurred by the separate board and payable out of the funds within the jurisdiction of the separate board.⁵

Every claim against a village should be subject to an independent, thorough and deliberate review to determine whether proposed payments are proper and valid charges. It is important for the board to determine whether the claims represent actual and necessary village expenditures, are supported by itemized invoices or receipts, comply with board-adopted policies, contain evidence of receipt of goods or services, required signatures, quotes and purchase orders.

Claims Are Not Properly Audited

The Board did not audit claims or create the office of Village claims auditor. Instead, two Board members audit Village claims individually prior to the monthly meeting of the Board. A warrant⁶ is present and approved by the Board during its monthly meeting. However, no claims along with supporting documentation are presented to the Board as a whole. As a result, all Board members available at the meeting do not audit and approve or disallow each individual claim to ensure they are for legitimate Village expenditures, properly supported and comply with Board-adopted policies.

Because the Board did not establish an adequate claims audit process, we reviewed 20 claims totaling \$31,332. We found that purchase orders were not used for five of the claims totaling \$10,036.⁷

While the claims reviewed appeared to be for proper and necessary Village purposes, the absence of a deliberate and thorough audit of claims by the Board as a whole is not in compliance with Village Law. Although two Board members are reviewing each claim prior to the meetings, the audit process would be enhanced if all Board members were reviewing each individual claim.

What Do We Recommend?

3. The Board as a whole should conduct a deliberate and thorough audit of every claim, ensuring that each claim has sufficient supporting documentation.

3 New York State Village Law Section 5-524, 3-301 (2)(c)

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

5 The Board, by resolution, must first empower a separate board of commissioners to undertake this limited claims audit function.

6 A warrant is a list of claims that includes vendor name, amount paid, check number and date.

7 The Village policy requires the use of purchase orders for purchases of \$1,000 and above. The five purchases all exceeded \$1,000.

Check Signing

What Is an Effective Check Signing Process?

Village officials are responsible for establishing procedures to ensure the check signing process is effective. If an electronic signature or signature stamp is to be used, it is important that access to these signatures be controlled. If the signature is generated through software that affixes it on checks, the signatures should be password protected. That password should only be known to the custodian, and he or she should enter it when needed. If the signature is affixed by using a signature stamp, that stamp should be kept in the custody of the check signer. When the electronic signature is being imprinted and when a signature stamp is being used, the person whose signature it represents should be present to supervise the process.

The Mayor Did Not Maintain Custody of His Signature

The Board authorizes (any two of the following) the Mayor, Deputy Mayor, Administrator Clerk-Treasurer and the Deputy Clerk-Treasurer to sign Village checks at its annual re-organization meeting. The Board further approved the use of the Mayor's electronic signature to sign all checks approved on the abstract. The other three officials manually sign Village checks.

The Village's practice is for the Mayor and Administrator Clerk-Treasurer to sign all Village checks and the corresponding deputies to sign in their absence. However, the Mayor did not maintain custody of his signature or supervise his signature being imprinted on the checks during the check signing process. The Mayor's electronic signature is not password protected so that only he can access it. Therefore, the Administrator Clerk-Treasurer, Deputy Clerk-Treasurer and an account clerk in the Business Office have access to the Mayor's signature through their individual user account in the Village's financial software. We were told that only the account clerk imprints the Mayor's signature on accounts payable checks. Additionally, the Mayor's signature stamp is in the custody of and used by two other account clerks in the Business Office to stamp the Mayor's signature on payroll checks and on all checks from the trust and agency fund.

We examined 40⁸ claims totaling \$310,012, with the Mayor's signature either electronically affixed or stamped. We found that all payments were for legitimate Village purposes. However, because the Mayor does not maintain custody of his electronic signature and his signature stamp, there is increased risk that his signature could be used to generate unauthorized checks.

8 See sample methodology in Appendix C.

What Do We Recommend?

The Board should:

4. Ensure that the Mayor's electronic signature is password protected.
5. Require the Mayor and the Administrator Clerk-Treasurer to sign all checks and the Deputy Mayor and Deputy Clerk-Treasurer to sign checks in the absence or inability of the officials whose signature is required.

The Mayor should:

6. Maintain custody of his electronic and physical signature stamps.
7. Be present when his electronic signature and signature stamp are being affixed or stamped on Village checks.

Appendix A: Response From Village Officials

Mayor

Ralph Ekstrand

Deputy Mayor

William A. Barrett

Trustees

Anthony J. Addeo

Cheryl L. Parisi

Walter Priestley

Village of Farmingdale

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Village Administrator–

Village Clerk/Treasurer

Brian Hartly

Village Attorney

Claudio DeBellis

Superintendent of Public Works

Andrew F. Fisch

October 12, 2018

Office of the New York State Comptroller
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236.

Thank you for your comments and recommendations you noted during your six month audit on procurement, claims audit and check signing. We also thank the diligence and professionalism of your auditors during this process.

You note that the Board adopted procurement policy does not require the solicitation or requests for proposals (RFP) for professional service contracts. You also agree that the Board is not required to issue an RFP to hire its attorneys, engineers, auditor, public relations or assessor. However, you suggest that the Board could revise its procurement policy to ask for a RFP for these services once every five to seven years and document its reasons for hiring each professional service. We will adopt this suggestion.

See
Note 1
Page 10

See
Note 2
Page 10

Your audit also noted instances that purchases were always made for appropriate Village purposes but verbal or written quotes were not always available to document the purchase was made from the most reliable, cost efficient vendor. We will endeavor to always adhere to the Village's procurement policy.

We agree with your recommendation concerning the Mayor's signature and will adopt your recommendation.

We respectfully disagree that Village claims are not properly audited. You suggest that the entire Village Board review every single claim in detail. We believe our present procedures are more effective than your recommendation.

See
Note 3
Page 10

Following is the procedure that is currently in place:

Every week two trustees review every claim individually. Claims that have been prepared for payment every week are approved by the department head and either the clerk or deputy clerk-treasurer before it is delivered to a trustee's home. Over the weekend, the trustee reviews each claim and if in agreement signs the claim. If the trustee does not agree a post it is affixed to the

claim with an explanation of the problem the trustee has. It takes this trustee usually an hour or two to review the claims and deliver the claims to the second trustee. The second trustee repeats this process and will issue post-its to claims the trustee has a problem with and returns the claims to the office before Monday morning. The clerk will research the problem claims and send them out the next week with explanations with the following week's claims. Usually the problem claims are cleared and the trustees will sign their approval to those claims. Meanwhile, the entire Board receives an email of the pending claims that have been approved independently by the two trustees and are requested to ask questions on any claims they may have or email their approval for payment. This procedure occurs every week and at our monthly meeting all the claims are presented to the Board for formal approval.

We believe that our current process is accountable and responsible. We do not believe that having the monthly claims passed around to all Board members before the monthly meeting is more effective than the procedure presently employed.

Thank you again for your services.

Very truly yours,

Ralph Ekstrand
Mayor

Appendix B: OSC Comments on the Village's Response

Note 1

While the Village is not legally required to solicit RFPs for professional services, General Municipal Law mandates that the Village adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. We believe that an RFP process is a good management practice to help ensure that the Village obtains needed services at a reasonable price.

Note 2

As stated in the report, our recommendation is that the Board considers revising its procurement policy to ensure it provides guidance for procuring professional services through a competitive process. We are not suggesting a time frame for the issuance of RFPs. However, as stated in the report, one of the goals of seeking competition is to ensure that the Village obtains services upon the most favorable terms and conditions, and in the best interest of the taxpayers. This should be considered when determining how often RFPs will be required.

Note 3

As stated in our report, Village Law Article 5, Section 5-524 requires that the Board, as a whole, should audit all claims in a Village that has not established the office of claims auditor. The Board approving warrants at monthly meetings does not constitute a deliberate audit of each claim.

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 reviewed Village Law, Office of the State Comptroller’s Local Management Guide and GML to obtain criteria for the areas reviewed.
- We interviewed Village officials and employees to gain an understanding of the procurement process, claims auditing process and the check signing process.
- We reviewed the Village’s procurement policy to gain an understanding of the procurement process for professional service providers and purchases under the bidding threshold. We also reviewed the policy to determine the dollar limits for purchases subject to verbal or written quotes.

Figure 2: Purchase Limits

Quotes Required	Purchase Contract Limits	Public Works Contract Limits
Two verbal or written quotes	\$1,000 - \$2,999	\$500 - \$2,999
Three written quotes	\$3,000 - \$19,999	\$3,000 - \$34,999

- For our testing of professional service providers, we reviewed the 19 professional service providers identified by our Applied Technology Unit from the Village’s financial software.
- After eliminating all providers of insurance, attorneys who represented residents in tax appeal hearings and brokerage firms there were seven service providers remaining. We selected the seven for our review.
- We also reviewed the Village’s cash disbursements list and identified another 24 professionals who were paid during the audit period June 1, 2016 through October 31, 2017. From these 24 professionals, we judgmentally selected three professionals to arrive at a sample selection of 10 professionals. We selected one of the three professionals because there was only one payment for \$18,000 to him; another professional because of the 24 professionals, it was the highest paid, and the doctor because it appeared as an unusual payment for a village.
- We reviewed documentation to determine whether Village officials sought proposals when awarding contracts for professional services or provided a written justification when seeking competition would not be in the best interest of the taxpayers.

-
- We reviewed all written agreements and Board resolutions for approving payments and services to professional service providers. We judgmentally selected an invoice for each professional and compared payments to Board-approved compensation to determine if professionals were paid in accordance with Board-approved rates.
 - From the cash disbursements journal, we eliminated all vendors that were paid in aggregate more than the bidding threshold and less than \$1,000, vendors paid for utilities, professional services and insurance, and any payments to Village employees. We sorted the data by selecting the highest payment from each of the 142 remaining vendors, then used a random number generator to select a sample of 20 claims.
 - We reviewed the selected claims and requested any documentation of quotes obtained for these vendors during the 2016-17 fiscal year.
 - For our claims audit sample, we applied a random number generator to all 2,833 claims paid during the audit period, totaling \$12.2 million, to select 20 claims. We removed from our sample any claim which included payroll and payment to employees, under \$300, for utility services and payments made to a vendor already in the sample. We reviewed the selected claims and compared them to copies of cancelled checks and Board-approved warrants to determine if payment amounts and vendor names are consistent.
 - For the check signing test, we applied a random number generator to all claims paid during the audit period to randomly select 14 claims. Because the Mayor's signature stamp was used for payment of payroll and trust and agency checks, we judgmentally selected three checks paid from the trust and agency fund totaling \$226,784, and three checks paid from payroll funds totaling \$5,376. From the cash disbursement list, we selected the first three payments to individuals that we identified as employees and the first three payments that we identified as trust and agency. We also included the 20 claims selected for our claims audit test. We reviewed the selected 40 claims to determine that the goods and services were for valid Village purposes. We also compared vendor names on copies of cancelled checks, invoices and warrants to determine if they were consistent.

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/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

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