

Village of Atlantic Beach

Cash Disbursements

MAY 2019



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

Contents

- Report Highlights 1**

- Cash Disbursements 2**
 - What Is an Effective Cash Disbursement Process? 2
 - The Board Did Not Audit Claims Before Payment 3
 - Credit Card Purchases Were Inadequately Supported 4
 - What Do We Recommend? 5

- Appendix A – Response From Village Officials 6**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services 10**

Report Highlights

Village of Atlantic Beach

Audit Objective

Determine whether Village officials ensured that cash disbursements were properly supported, audited and for valid purposes.

Key Findings

- The Board did not audit individual claims before payment. Our review of 59 claims totaling \$1.2 million paid during the audit period showed that these claims generally appeared to be valid expenditures.
- Village officials were unable to provide documentation to show that they obtained the required number of bids, quotes or request for proposals (RFPs) for seven purchases totaling \$102,494, as required by the procurement policy.
- While New York State Village Law, Section 5-524 (Village Law) authorizes certain claims to be paid in advance of audit, 14 claims totaling \$380,938 were paid before audit that were not authorized for such prepayment.
- Village officials paid 40 credit card charges totaling \$7,187 (of 103 charges totaling \$16,999 incurred during the audit period) that were inadequately supported.

Key Recommendations

- Conduct a deliberate and thorough audit of each individual claim and ensure that each claim is sufficiently supported.
- Ensure compliance with the procurement policy before approving claims for payment.
- Claims paid before audit should be limited to those authorized under Village Law and presented at next regular meeting for audit.

Village officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Village of Atlantic Beach (Village) is located in the Town of Hempstead in Nassau County. The Village is governed by an elected Board of Trustees (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 Treasurer, who is appointed, is responsible for receiving, disbursing and maintaining custody of Village money.

The Village provides various services to its residents including street maintenance, snow removal, recreation and street lighting. These services are funded primarily by real property taxes.

Quick Facts

2017-18 General Fund Expenditures	\$3.4 Million
Non-payroll Vendors During the Audit Period	221
Check Disbursements During the Audit Period	\$6.2 million

Audit Period

June 1, 2016 – February 28, 2018

Cash Disbursement

What Is an Effective Cash Disbursement Process?

Village Law¹ requires a board to audit all claims against a village before approving them for payment. The board may by resolution authorize payment for utility services, postage, freight and express charges in advance of audit. The claims for such advance payments must be presented at the next regular board meeting for audit.

The board should conduct a deliberate and thorough audit of claims, including charges made on village credit cards, before it disburses funds. To properly approve claims for payment, the board must ensure that each claim contains sufficient supporting documentation, including itemized receipts or invoices to determine whether the amounts claimed represent valid village expenditures and comply with board-adopted policies.

An adequate claims audit can help ensure that public money is being spent and handled properly, identify conditions in need of improvement and provide oversight and review of the village's disbursements process. Written policies and procedures help ensure that claims are properly supported, credit cards are appropriately used and procurement policies are followed.

New York State General Municipal Law (GML)² requires a board to advertise for bids for purchases in excess of \$20,000 and public work contracts in excess of \$35,000. Purchases of like items that aggregate to competitive bidding thresholds during a fiscal year also must be publicly bid. GML requires the governing board to adopt written procurement policies and procedures for procuring goods and services not required by law to be competitively bid, such as professional services.³ Using request for proposals (RFPs)⁴ or obtaining written or verbal quotes is an effective way to ensure that the village receives the desired services for the best price.⁵

The Village's procurement policy requires Village officials to obtain two verbal quotes for purchase contracts between \$1,000 and \$2,999 and public work contracts between \$1,000 and \$6,000. Three written, fax or email quotes or

1 New York State Village Law, Section 5-524

2 New York State General Municipal Law (GML), Section 103

3 GML, Section 104-b. Professional services generally include services provided by attorneys, engineers and certain other services requiring specialized or technical skills, expertise or knowledge; the exercise of professional judgment; or a high degree of creativity.

4 An RFP is generally a document that provides detailed information concerning the type of service to be provided including minimum requirements and, where applicable, the evaluation criteria that will govern the contract award. Evaluation criteria can include factors in addition to price (e.g., experience, work plans and methodology to achieve desired results and estimated completion times).

5 Refer to our publication Seeking Competition in Procurement available on our website at www.osc.state.ny.us/localgov/pubs/lmgm/seekingcompetition.pdf

written RFPs are required for purchase contracts between \$3,000 and \$9,999 and public work contracts between \$6,001 and \$34,999.

The Board Did Not Audit Claims Before Payment

The Board does not audit individual claims before they are paid. The Deputy Village Clerk assembles the claims with supporting documentation and prepares the abstract that lists the unpaid claims twice each month, once for the Board meeting and then again for bills that are to be paid between Board meetings. The Treasurer attends the monthly Board meeting with the claims included on that abstract.

However, the Board reviews and approves the abstracts without auditing each individual claim. Furthermore, although the Board receives the abstract that includes the claims paid between monthly meetings, these claims are not presented at the next regular meeting or documented in the Board minutes.

During the audit period, Village officials made payments by check to 221 vendors totaling \$6.2 million. We reviewed 59 claims⁶ (30 non-credit card claims and 29 credit cards claims)⁷ totaling \$1.2 million, to vendors who were paid a combined total of \$5.2 million during our audit period, to determine whether they were adequately supported, appeared to be valid expenditures and complied with GML⁸ and the procurement policy, when applicable. Except for one credit card claim for \$1,274,⁹ claims we reviewed appeared to be valid expenditures.

For 13 of the non-credit card claims totaling \$1.1 million, officials were required to solicit competition in accordance with the law or their procurement policy. However, officials were unable to provide us with documentation to show that they obtained bids, RFPs or the required number of quotes for seven claims totaling \$102,494.

Village officials did not:

- Advertise for competitive bids for claims paid to three vendors totaling \$61,195. These three vendors were paid a combined total of \$606,329 during our audit period. For example, one claim for the purchase of lumber for a boardwalk totaling \$32,009 was made without obtaining bids. This vendor was paid a total of \$80,929 during our audit period. Officials told us

⁶ See Appendix B for information on our sampling methodology.

⁷ The credit card claims totaling \$16,999 are discussed under the credit card section of this report.

⁸ GML, Section 103

⁹ Discussed further in the Credit Card Purchases Were Inadequately Supported section of this report.

that competition was not sought for this purchase because the vendor is a local lumberyard and the Village has been doing business with them for many years.

- Seek competition for two claims for professional services totaling \$38,555. Two providers were paid a total of \$111,750 during our audit period. An engineering firm was paid \$62,958 during our audit period and an accounting firm was paid \$48,792 during our audit period without seeking competition.
- Provide evidence that quotes were obtained for two claims totaling \$2,744 (boardwalk bench repairs – \$1,715 and payroll processing – \$1,029).

In addition, two claims totaling \$89,570 were inadequately supported and paid without receipts or invoices to support the claims. During our field work, officials provided us with the \$89,500 invoice and Board resolution for equipment purchased on one of these claims.¹⁰

The Board adopted a resolution authorizing Village officials to pay certain claims in advance of audit. We found that 15 non-credit card claims totaling \$381,557 were paid before the abstract was presented at the Board meeting. Of these 15 claims, 14 totaling \$380,938 were not authorized by law to be paid in advance of audit or presented to the Board at the next regular meeting for audit. Examples include payment for a street light project for \$132,476 and payment for aluminum boardwalk railings for \$50,000.

When the Board fails to conduct a thorough and deliberate examination of each individual claim and the supporting documentation, it does not have enough information to determine whether the claims represent valid expenditures or the purchases complied with Board-adopted procurement policy. Therefore, there is an increased risk that officials may pay more than necessary or that improper claims could be paid.

Credit Card Purchases Were Inadequately Supported

The Board did not adopt a credit card policy to provide guidance to Village officials when using credit cards. During our audit period, officials paid 29 credit card claims with 103 charges totaling \$16,999.

We reviewed all of these charges and found that 40 purchases totaling \$7,187 were inadequately supported. For example, one payment of \$1,274 charged to the credit card at a car dealership was not supported with an invoice or receipt.

Officials told us that this payment was to repair an employee's personal vehicle because the vehicle was used while conducting Village business. The Board

¹⁰ The other claim was for a \$70 purchase made at a hardware store.

adopted a resolution to allow officials and employees, who use their personal vehicles while performing official Village business, to be reimbursed at the standard federal mileage reimbursement rate.

However, Village officials did not require this employee to report his mileage, but instead paid for the repair with the credit card. We question whether this was an appropriate Village expenditure because, although the Mayor said he verbally approved the repair, the payment was not in accordance with the Board resolution.

Credit card purchases also included nine charges for office supplies totaling \$1,010 that were not adequately supported. Additionally, officials paid sales tax totaling \$296 on the credit card purchases.

Without an effective cash disbursement process that ensures claims are properly supported, audited and for valid purpose, the Board does not have adequate assurance that the purchases were actual and necessary expenditures and complied with its policies and procedures. Although we found no instances of fraud, the system of controls in place is inadequate to protect Village finances.

What Do We Recommend?

The Board should:

1. Conduct a deliberate and thorough audit of each claim and ensure that each individual claim is sufficiently supported and payment approval is documented in the Board minutes.
2. Ensure compliance with the procurement policy before approving claims for payment.
3. Limit claims paid before audit to those authorized under Village Law and ensure they are presented at the next regular board meeting.
4. Adopt policies and procedures to guide officials in the use of credit cards and the documentation required to support claims.
5. Pay employees the standard federal mileage rate for use of personal vehicles in accordance with the Board resolution and develop a system to track such use.
6. Ensure that credit card charges are supported with itemized receipts or invoices and that all allowed card use is in accordance with its policies and resolutions.
7. Ensure that sales tax is not paid, when applicable, and seek reimbursement for the sales tax paid that was identified in this report.

Appendix A: Response From Village Officials



INCORPORATED

Village of Atlantic Beach

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MAYOR

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April 25, 2019

Mr. Ira McCracken, Chief Examiner
New York State Office Building - Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788

Dear Mr. McCracken:

This letter is in regard to the Office of the State Comptroller's Report of Examination exit conference held on March 26, 2019.

The Village wishes to respond to the findings as follows:

Cash Disbursements

The Village acknowledges the need that all necessary claims should be audited by the Board before being paid. The Village has already implemented a system where all claims are signed by the Board prior to paying the claim.

Although the report states all cash disbursements during the audit period are valid, the Village will get competitive bids and quotes for all necessary cash disbursements.

The Village will be adopting a credit card policy at our next board meeting and will re-adopt the policy at the annual organizational meeting.

- 2 -

In conclusion, the Village understands the necessity of an effective cash disbursement process and will take the recommendations from the report to ensure we have the proper policies and procedures needed to protect Village finances.

Yours very truly,

George J. Pappas
Mayor

Appendix B: 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 objective¹¹ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials to gain an understanding of the cash disbursement process.
- We reviewed the Board-adopted procurement policy.
- We obtained information directly from the Village's computerized financial database and then analyzed it electronically using computer-assisted techniques. We reviewed all disbursements made during our audit period to determine which areas were most at risk. Because claims were not audited by the Board, we determined that credit card purchases had a high level of risk. Therefore, we reviewed all 29 credit card claims made during our audit period. In addition, we selected the 15 highest paid vendors and 15 randomly selected non-credit card claims for review. We determined how much these vendors were paid for the audit period. Where appropriate, we considered aggregate vendor totals to determine the type of competition required. The total of claims reviewed, and total paid to these vendors was compared to the total population to determine adequacy of our sample.
- During our audit period, total disbursements were \$9.8 million. From this amount, we excluded transfers and payroll related payments totaling \$3.6 million, which resulted in payments by check of \$6.2 million to 221 vendors. We judgmentally selected the 15 highest paid vendors (excluding a lease payment and Justice Court Fund remittance) who were paid a combined total of \$5.1 million. We selected and reviewed the highest dollar payment to each vendor, which totaled approximately \$1.2 million. In addition, we randomly selected an additional 15 payments totaling \$7,860 to vendors who were paid a combined total of \$153,855. This resulted in a sample of 30 non-credit claims totaling \$1.2 million (20 percent of the vendor population) with aggregate payments to these vendors of \$5.2 million (84 percent of total vendor payments).
- We reviewed the 30 non-credit card claims to determine whether payment amounts matched the claim, support was adequate, and whether the claim was for valid purposes, approved by the Board and complied with the procurement policy.
- We reviewed all 15 of these 30 non-credit card claims that were paid in advance of audit, totaling \$381,557 to determine whether they were authorized under Village Law to be paid in advance.

¹¹ We also issued a separate audit report, *Village of Atlantic Beach – Payroll (2018M-254)*.

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- We reviewed all 29 credit card claims during our audit period, which included 103 credit card charges totaling \$16,999, to determine whether they were adequately supported and for valid purposes, and if applicable complied with procurement policy.

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 relevant population size 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 Board to make the CAP available for public review in the Clerk's office.

Appendix C: 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/pubs/cyber-security-guide.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

Contact

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