



Village of Mastic Beach Treasurer's Office and Credit Cards

Report of Examination

Period Covered:

June 1, 2012 — November 30, 2013

2014M-150



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 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 Mastic Beach, entitled Treasurer's Office and Credit Cards. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Mastic Beach (Village) is located in the Town of Brookhaven in Suffolk County and has approximately 14,900 residents. The Village is governed by a Board of Trustees (Board) comprising four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's financial affairs. The Treasurer is the Village's chief financial officer and is responsible for maintaining custody of Village moneys and appropriate accounting records, disbursing Village funds and preparing monthly and annual financial reports.

Operating expenditures for the 2012-13 fiscal year were \$3.7 million. These expenditures were funded primarily with revenues from real property taxes and refuse collection fees. Budgeted expenditures for the 2013-14 fiscal year were \$4.2 million.

Scope and Objective

The objective of our audit was to review selected Village financial operations for the period June 1, 2012 through November 30, 2013. Our audit addressed the following related questions:

- Did the Treasurer adequately perform the duties of his office?
- Did the Board provide adequate oversight of the use of Village credit cards?

Audit Results

The Treasurer did not adequately fulfill his role as the Village chief financial officer. The Treasurer did not provide Board members with financial information such as budget status reports or bank reconciliations; as a result, the Board is not adequately informed of the Village's fiscal affairs. The Treasurer did not propose budget modifications prior to over-expending budget lines. Additionally, the Treasurer signed only three of 454 checks that we reviewed for a six-month period. Although there is no Board authorization for a petty cash fund, the Treasurer issued six petty cash checks during our audit period totaling \$1,814. None of the checks and supporting documentation were presented to the Board for audit. Further, the Treasurer failed to obtain adequate documentation to support the petty cash reimbursements. Disbursing funds without first obtaining properly itemized receipts to ensure that payments were for legitimate Village purposes does not adequately safeguard Village moneys.

Board members and Village employees are using Village credit and purchase cards without Board authorization. In addition, the Treasurer has not required adherence to the credit card policy and credit and purchase-card bills have been routinely paid without adequate documentation to support the nature

and validity of each purchase. We found that \$48,585 of the \$50,531 in purchases made with the credit and purchase cards had inadequate documentation. This increases the risk that the Village may pay for purchases that are not for valid Village expenses.

Comments of Local Officials

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 recommendations and indicated they have initiated corrective action.

Introduction

Background

The Village of Mastic Beach (Village) is located in the Town of Brookhaven in Suffolk County and has approximately 14,900 residents. The Village is governed by a Board of Trustees (Board) comprising four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's financial affairs. The Treasurer is appointed by the Board and is the Village's chief financial officer responsible for maintaining custody of Village moneys and appropriate accounting records, disbursing Village funds and preparing monthly and annual financial reports. In the Treasurer's absence, the Mayor may disburse funds, if authorized by Board resolution.

The Village offers a variety of services to its residents including street maintenance, snow removal, public safety, refuse collection, justice court and general governmental support. Operating expenditures for the 2012-13 fiscal year were \$3.7 million. These expenditures were funded primarily with revenues from real property taxes and refuse collection fees. Budgeted expenditures for the 2013-14 fiscal year were \$4.2 million.

The Treasurer is responsible for paying claims from vendors requesting payment for services rendered or materials furnished to the Village and for processing payroll and maintaining all related financial records. The Treasurer is required to keep expenditures within budgetary limits and maintaining the Village's petty cash fund if the Board authorizes such a fund.

Objective

The objective of our audit was to review selected Village financial operations for the period June 1, 2012 through November 30, 2013. Our audit addressed the following related questions:

- Did the Treasurer adequately perform the duties of his office?
- Did the Board provide adequate oversight of the use of Village credit cards?

Scope and Methodology

We examined the Village's selected financial operations 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 are 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 recommendations and indicated they have initiated 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.

Treasurer's Office

The Treasurer is responsible for the accurate and complete accounting of all moneys received and disbursed from Village funds, initiating purchases, reconciling bank statements and maintaining all financial records. Additionally, the Treasurer is responsible for paying claims from vendors requesting payment for services rendered or materials furnished to the Village and for processing payroll and maintaining all related financial records. With limited exceptions, the Treasurer is not authorized to make payments until claims have been audited and approved by the Board and an abstract of approved claims is certified by the Village Clerk for payment. The Treasurer should prepare and submit monthly reports to the Board and is required to keep expenditures within budgetary limits. The Board may authorize the Mayor to disburse funds in the Treasurer's absence. The Treasurer is also responsible for maintaining the Village's petty cash fund if one is authorized by the Board.

The Treasurer¹ did not adequately fulfill his role as the Village's chief financial officer. The Treasurer did not provide Board members with financial information such as budget status reports or bank reconciliations; as a result, the Board was not adequately informed of the Village's fiscal affairs. The Treasurer did not propose budget modifications prior to over-expending budget lines. Additionally, the Treasurer signed only three of 454 checks that we reviewed for a six month period. Finally, although there is no Board authorization for a petty cash fund, the Treasurer issued six petty cash checks during our audit period.

Reports to the Board

It is essential that the Board receive regular financial reports from the Treasurer to fulfill its responsibility of monitoring financial operations. Interim reports should provide the Board with timely information on such issues as: financial position, results of operations, budget status, policy compliance, service or project costs, performance measures and legal compliance matters. Periodic reports should be used as key measures in monitoring activities and conveying information to the appropriate officials and to the public.

The Treasurer did not provide the Board with any financial reports. As a result, Board members are not adequately informed of the Village's fiscal affairs and cannot adequately manage the Village's finances.

¹ During the audit period, the Village employed three different Treasurers. The Board appointed a Treasurer who resigned in May 2013. Another Treasurer was appointed in June 2013 and served through September 2013. A third Treasurer was sworn in on October 2, 2013 and served until March 2014. The current Treasurer was appointed in May 2014, subsequent to our audit fieldwork.

Budget Status Reports – Budget status reports provide the Board with information about year-to-date revenues and expenditures as compared to budget estimates. At a minimum, these reports should identify unfavorable variances that require timely budget amendments to maintain control over spending and ensure compliance with applicable laws. In meeting its oversight responsibilities, the Board should review these reports, ask questions about revenues and expenditures not meeting budgetary expectations and ensure that corrective action or budget amendments are implemented before financial condition is negatively affected.

Budget-to-actual reports are not provided to or discussed with the Board. When there is a concern about a specific budget line, the Mayor told us that he will email the Deputy Treasurer to question what the budget position is. The Board does not discuss budget lines that are over/under budgeted nor do they authorize or approve budget transfers throughout the fiscal year. Instead, the Board makes a yearly motion for transfers based on the external auditor's recommendations. However, this occurs well after the overspending has occurred and is not effective oversight of the budget.

Cash Flow and Fund Balance Projections – Two of the basic tools that Village officials can use to effectively manage cash are cash flow and fund balance² projections. Cash flow projections provide an estimate of the amount of cash that will be available for investment during the fiscal year and on a month-to-month basis. They are an effective tool for ensuring that sufficient cash is available when needed for routine operations. Cash flow projections should be updated regularly to reflect actual results and for any unanticipated events that affect the timing and amount of receipts and disbursements. During budget preparations, fund balance projections assist Village officials in calculating year-end fund balance months in advance so it can be considered as a possible financing source for the ensuing year's annual budget. The key to using this as a funding source is the proper estimation of its value. Revised fund balance projections should be calculated monthly until the next year's budget is adopted.

The Treasurer does not prepare cash flow or fund balance projections. Further, there is no Board action stating what the Board's intentions are regarding fund balance nor is there any Board authorization for the fund balance assigned to the subsequent year's budget. This hinders financial transparency to the taxpayers.

² Fund balance represents resources remaining from prior fiscal years.

Bank Reconciliations – The Board should receive and review bank reconciliations.³ Board oversight should ensure reconciliations are completed timely and can act as a compensating internal control.

Bank reconciliations are performed each month by the Mayor’s Secretary and are reviewed by the Deputy Treasurer. They are then reviewed by the Treasurer, but are never provided to or reviewed by the Board. We re-performed the October 2013⁴ bank reconciliations for all bank accounts and found that the reconciliation for the trust and agency account did not balance. The reconciliation appears to use a plug number titled “Excessive Transfer” for \$4,255 to balance the statement to the accounting books. The Deputy Treasurer explained that this was an error in the October 2013 accounting records that she believed fixed itself in the following month. However, when we reviewed the November 2013 reconciliation it also includes the “Excessive Transfer” amount and a new amount titled “Shortage in Transfer” for \$3,958. Using plug numbers to reconcile a bank account is not acceptable and should be discouraged. Had the Board been provided these reconciliations, it may have identified these errors.

The Board is unable to adequately monitor and manage Village operations because it is not provided monthly financial reports by the Treasurer. The lack of periodic reporting of key financial information diminishes the Board’s ability to monitor and manage the Village’s financial resources and increases the risk that errors and irregularities may occur and go undetected and uncorrected.

Budget Transfers

One of the Treasurer’s duties is to ensure that expenditures are kept within the amount of the authorized appropriations. In certain instances, it may become necessary for the Board to transfer budget funds to cover the cost of specific expenditures that are expected to exceed their budgeted appropriations. The Treasurer, as Budget Officer, should propose, and the Board should approve, budget modifications prior to the occurrence of over-expenditures.

The Treasurer and Deputy Treasurer approved purchases and cash disbursements without first ensuring an appropriation was available to spend. Also, the Board did not require that the Treasurer propose budget modifications for approval prior to expenditures exceeding appropriations. This allowed expenditures to occur without sufficient appropriations.

³ A schedule showing and explaining the differences between the bank’s records of cash accounts and the local government’s accounting records

⁴ The most recently completed bank reconciliation, requested in December 2013 and provided by Village officials in January 2014.

Since the Treasurer does not provide the Board with any budget status reports, it is unable to monitor the status of expenditures and available appropriations. Board members told us that they rely on the Treasurer to prevent appropriations from being overspent. As a result, the Village over-spent 23 of 49 appropriations by a total of \$945,495 in the 2012-13 fiscal year and 12 of 51 appropriations by a total of \$337,486 in the 2013-14 fiscal year.

We reviewed 17 over-expended appropriations,⁵ five in 2012-13 and 12 in 2013-14. All five appropriations in 2012-13 remained over-spent until the Board, in October 2013, five months after the fiscal year close, authorized a retroactive budget transfer. These appropriations remained with a negative balance between four and 14 months before the Board approved budget modifications totaling \$96,711.

In 2013-14, the Board waited between two and 11 months to approve budget modifications to the 12 appropriations reviewed. On December 31, 2013, prior to the budget modifications, all 12 appropriations remained over-spent by a total of \$337,486. On January 17, 2014, the Treasurer requested Board approval for a budget transfer after we brought these over-expended budget lines to his attention. For example, the Village Clerk's contractual services appropriation was budgeted for \$110,000 for the 2013-14 fiscal year. On August 3, 2013, two months into the fiscal year, the appropriation went over budget and the Treasurer did not increase this appropriation. Instead, they continued to allow expenditures from this budget line, spending \$219,987 more than was appropriated. On January 22, 2014, almost six months after the initial negative balance, the Board approved a budget modification, transferring balances from other appropriations.

Inadequate budget monitoring has forced a reliance on retroactive budget modifications. Budget modifications conducted after year end serve no budgetary control purpose and mask the over-expenditures that were allowed to occur during the year.

Check Signatures

Pursuant to Village Law, the Treasurer is the chief fiscal officer and is responsible to pay out money from the Village treasury. All such payments must be made by check. The Mayor may sign checks in the absence or inability of the Treasurer or Deputy Treasurer, when authorized by Board resolution or local law. There is no provision in the Law to authorize an individual other than the Treasurer, Deputy Treasurer, or Mayor in the Treasurer's absence, to sign checks.

⁵ See Appendix B for methodology of sample selection.

There are no Board resolutions authorizing any signatures on Village checks. The Deputy Treasurer told us that the disbursement process requires two signatures on all checks. These two signatures can be any one of the four individuals who signed the bank signature card which include the Treasurer, the Mayor, the Village Clerk and the Deputy Mayor. While the Treasurer is not frequently available at the Village Hall, the Deputy Treasurer, appointed by the Board each year, is a full-time employee available each day during regular business hours. However, the Deputy Treasurer is not an authorized signor with the bank; therefore, Village procedure is that checks are signed by two of the other three officials even though there is no provision for this in Village Law.

Given these weaknesses, we reviewed 454⁶ disbursement checks amounting to \$1,354,767. Only three of these checks, totaling \$550, included the Treasurer's signature. Although not authorized by Board resolution or local law, the Mayor signed 426⁷ of the remaining checks totaling \$1,338,880, three of which, totaling \$1,921, included only the Mayor's signature. The remaining 25 checks totaling \$15,337 were signed by individuals⁸ not authorized to sign under Village Law. Three of these checks, totaling \$1,662, included only the Village Clerk's signature.

Although payments appeared to be for Village purposes, when checks are not properly signed by the Treasurer or other individual authorized by Board resolution or local law, there is a significant risk that payments could be made in error or for unauthorized purposes.

Petty Cash

Village Law requires that the Board, by resolution, establish a revolving petty cash account for any administrative unit or officer in such amount as is deemed necessary. If such authorization is not established, the Village should not be issuing checks payable to cash. All petty cash purchases should be for supplies or services furnished to the Village where the terms call for cash payment to be made upon delivery. A list of all expenditures made from the petty cash account, together with all supporting receipts, must be presented to the Board for review prior to replenishing the fund.

The Village Clerk informed us that there is no Board authorization for the Village to have a revolving petty cash account. During the audit period, the Deputy Treasurer issued six petty cash checks totaling \$1,814,⁹ which included 36 receipts. Three of the checks were cashed

⁶ See Appendix B for methodology of sample selection

⁷ Three checks were signed by only the Mayor, 304 signed by the Mayor and Deputy Mayor, 119 signed by the Mayor and the Village Clerk.

⁸ Deputy Mayor (also a Trustee) and the Village Clerk

⁹ The six checks were signed as follows: three by the Mayor and Deputy Mayor, two by the Mayor and the Clerk and one by the Deputy Mayor and the Clerk.

by the Deputy Treasurer, two were cashed by a Trustee and one was cashed by the Village Administrator. We reviewed all six checks and the supporting documentation and noted the following:

- None of the checks and supporting documentation was audited by the Board.
- Four of the six checks were missing receipts totaling \$149.
- Thirty receipts, totaling \$1,120, had no indication as to who made the purchase or received the reimbursement. For example, a receipt for \$50 attached to the August 17, 2012 petty cash check was dated July 18, 2003. The receipt did not identify the vendor, did not identify what was purchased and had no indication as to who turned in the receipt or received the reimbursement.
- Twenty-five receipts, totaling \$906, identified purchases that did not appear to be for a valid Village expenditure. For example, on February 26, 2013, the Village paid \$33 for pizza. The receipt was handwritten and did not identify who made the purchase, who the pizza was for or what the business purpose was. Village officials could not identify the business need for this purchase.
- Two receipts totaling \$158 lacked enough information to show whether they were for valid Village expenditures. For example, on November 14, 2012 a \$70 purchase was made for gasoline. There was no indication on the receipt as to who made the purchase or received the reimbursement and why cash was needed rather than using one of the Village's 17 fuel credit cards.
- Two receipts for a total of \$145 were not itemized. For example, a receipt dated November 1, 2012 totaling \$120 from a sandwich store was handwritten and simply stated "lunch" with the total amount on it. It did not identify what was being purchased or the number of people the lunch was for.

The Board's failure to pass a resolution establishing a petty cash fund, the Treasurer issuing checks totaling \$1,814 without Board authorization and the Treasurer's failure to obtain adequate documentation to support the petty cash reimbursements increases the risk that Village funds can be used for non-business purposes without being detected.

Recommendations

1. The Treasurer should provide the Board detailed monthly financial reports that contain sufficient and appropriate information to enable informed decisions regarding financial operations. These reports should include cash balances, all cash receipts and disbursements made during the month, a comparison of actual revenue and expenditures to budget amounts, a fund balance projection and bank reconciliations with copies of the bank statements. Cash flow projections should also be prepared for the Treasurer's use.
2. The Treasurer should ensure there is an available appropriation prior to approving purchases or disbursing Village funds.
3. The Treasurer should present the Board with proposed budget modifications in a timely manner so that budget line items are not overspent.
4. The Board should ensure that appropriate funds are transferred by the Treasurer throughout the fiscal year rather than approving retroactive budget modifications.
5. The Treasurer should sign all disbursement checks. In the absence of the Treasurer, the Deputy Treasurer should sign the checks. In the absence of both the Treasurer and Deputy Treasurer, the Mayor may sign the checks if authorized by Board resolution.
6. The Board should pass a resolution establishing a revolving petty cash account, if they intend to allow the Treasurer to continue using a petty cash fund.
7. The Treasurer should present the Board with a list of all expenditures from the petty cash account, together with the supporting receipts for a thorough review before he reimburses the fund.

Credit Cards

An effective system of internal controls requires that the Board adopt a sound credit card policy prior to making credit cards available to individuals. It is important that the policy identifies the individuals who are authorized to use the credit or purchase cards, provides dollar limits for purchases, describes the types of purchases allowed and the documentation required to support the purchases, addresses the methods to recover moneys from improper use of the cards and establishes control procedures over the custody of the cards. Adequate credit and purchase card procedures help ensure that the use of the cards is monitored and preclude unnecessary costs such as finance or late charges. Village officials should also ensure that credit cards do not allow for cash advances. Lastly, Village Law requires the Board to audit credit card claims against the Village.

The Board adopted a credit card policy in December 2012. While the policy includes documentation requirements and addresses recovering moneys from improper use, it lacks important oversight controls. The policy does not define how many credit card accounts may be established, limit the number of credit cards to be issued, address to whom the cards may be issued, nor does it specify credit or cash advance limits. Although the policy requires documentation be submitted to the Treasurer by the employee within seven business days of the purchase, the Treasurer has not been enforcing the policy. The Treasurer has not instituted procedures to ensure that the documentation required is submitted for each purchase such as receipts detailing the cost of the goods or services, the date of the purchase and information identifying the official business for which the item or service was purchased. As a result, the Treasurer has routinely paid credit and purchase card bills without reconciling receipts to statements so the Village does not have adequate documentation to support the nature and validity of each purchase.

In addition, Board members are using Village credit and purchase cards without authorization. The Village has a fuel credit-card account that was established in August 2012, four months prior to the adoption of the credit card policy. The Village also has a general-purpose credit-card account established in March 2013 with two issued cards: one to the Mayor and one to the Village Administrator. Although a September 2013 Board resolution authorizes the Village Administrator to use the general-purpose credit card, there are no other Board resolutions authorizing additional users for these two credit cards. The Village also has two purchase card accounts, one for an office supply store and one for a home improvement store.

Both of these purchase cards were obtained prior to the adoption of the credit card policy. There is one card for the office supply account but no Board-authorized users for the card. The office supply card is maintained in a lock box in the Treasurer's office and is provided to any employee going to the office supply store. There are three home improvement store purchase cards with no Board-authorized users. The Village Administrator and the Highway Foreman each maintain a card. The third card is held in a lock box in the Treasurer's office. We identified concerns with the documentation and support for \$48,585 of the \$50,531 purchases made with the credit and purchase cards.

Fuel Credit Cards – The Village purchases fuel using a company which issues credit cards. There are 17 credit cards issued on this account, one assigned to each vehicle plus three spares used for small equipment and rental cars. Eighteen Village employees and two Board members have been issued individual pin numbers allowing them use of the cards; however, there is no Board resolution authorizing users for this account. The Village paid \$44,068 to this vendor during the audit period.

We judgmentally¹⁰ selected six months¹¹ during the audit period and reviewed all charges listed on the fuel credit card account statements, which included 386 purchases totaling \$21,819 and \$2,261 in late fees, finance charges and optional report fees.¹² We found no evidence of managerial review of these statements and no evidence that the Board audited any of these claims. The receipts supporting these purchases were not attached to the claim packets. Upon request, we were provided with 108 receipts totaling \$6,776. Thirteen of these receipts included charges totaling \$1,420 for fuel purchases which exceeded the capacity of the vehicle that the card was assigned to. For example, on August 16, 2013 a Village employee fueled up the skid steer¹³ which has a fuel capacity of 29 gallons. However, the total purchase was for 39.153 gallons, 10 gallons more than the equipment fuel tank was capable of holding. We were told by the Village Administrator that this could happen because sometimes the employee will fill-up fuel containers in addition to the vehicle; however, there is no documentation to support this assertion. Village officials could not determine whether the remaining 278 of the 386 purchases, totaling \$15,043, were valid Village expenses because there were no receipts available.

¹⁰ See Appendix B for methodology of sample selection

¹¹ October 2012, March 2013, April 2013, August 2013, September, 2013 and October 2013

¹² Village officials requested and received a detailed statement that listed all individual vehicles with their usage, date and time of fill up for July 2013 for which they paid an additional fee.

¹³ A small rigid frame, engine-powered machine with lift arms used to attach a wide variety of labor-saving tools or attachments

In addition, 11¹⁴ of the 386 purchases totaling \$666 were made using the same Village pin number for the same vehicle within minutes of each other. The circumstances surrounding these anomalies were not questioned; the Treasurer paid the invoice without any further follow-up to determine how these charges were able to occur. Further, cards were used for three purchases totaling \$141 outside the boundaries of the Village.¹⁵ Two of these purchases were done with the Deputy Treasurer's pin number and the third¹⁶ was executed with the Village Administrator's pin number. We were told by the Deputy Treasurer that the cards were used to fuel rental vehicles while attending conferences. However, the use of the card for this purpose was not authorized by the Board nor was the attendance to the conferences. Lastly, as explained to us by the Deputy Treasurer, because the Board only meets once a month to approve the abstract of claims, the Village routinely pays late fees and finance charges to this vendor. During the six months reviewed, the Village paid a total of \$2,261 in late fees and finance charges.

Because the Treasurer has not required adherence to the Board-adopted policy by not requiring proper documentation be submitted to ensure all charges were valid Village expenses, and the credit card claims are not audited by the Board, credit card bills have been routinely paid without adequate documentation to support the nature and validity of each purchase.

General-Purpose Credit Cards – The general purpose credit card account, with two cards, was used to make purchases totaling \$14,405 during the audit period. In addition to credit limits, these cards have a total cash advance limit of \$1,000. We judgmentally selected statements for four¹⁷ months which included 37 purchases totaling \$8,912. We found no evidence of review of these statements and there is no evidence that the Board audited any of these claims. When originally provided to us, the claims were missing 20 receipts totaling \$3,667. The Deputy Treasurer was able to obtain 16 of these receipts, ultimately leaving four charges totaling \$291 unsupported. For example, a charge in the amount of \$85 on September 11, 2013 at a sports bar had no receipt. The Deputy Treasurer told us that this charge was for a lunch meeting that was attended by the Village Administrator, the Fire Marshall, the Mayor and the Village Attorney; however, she provided no record of the meeting or its business purpose. Additional findings regarding the remaining 33 purchases are as follows:

¹⁴ Village officials were not able to provide us with receipts for seven of the purchases.

¹⁵ Village officials were not able to provide us with one of the receipts.

¹⁶ Village officials were not able to provide us with a receipt.

¹⁷ April 2013, June 2013, September 2013 and November 2013

- Seven receipts totaling \$400 were not itemized. For example, a receipt for a \$149 purchase paid to an online university was a printout which provided no detail. Village officials told us it was for training classes for the Deputy Treasurer and the Village Clerk. They were not specific as to what the title of the classes were and they could not provide us any certificates to support that any actual classes were taken.
- Three receipts totaling \$194 were for purchases that were not valid Village expenditures. These included a purchase for \$128 made on September 30, 2013 for coffee and tea, and two purchases of food from a convenience store; \$24 on March 12, 2013 and \$42 on July 30, 2013.
- We were unable to determine the validity of seven purchases totaling \$267 due to the lack of documentation. For example, on August 6, 2013, there was charge to a local pizza restaurant for \$44. The receipt provided was not itemized and did not have any identifying information other than the amount paid. We were told by the Deputy Treasurer that this was a purchase of pizza served at a staff meeting held at Village Hall. However, she provided no documentation to confirm what the meeting was for, who attended the meeting or why it was necessary for employees to work through a meal time.

Finally we found that the general-purpose cards have a cash advance limit of \$1,000. This is an unnecessary feature and increases the risk that unauthorized cash withdrawals could occur.

Purchase Cards – During the audit period, the Village’s two purchase cards were used to make over \$49,000 of purchases. The Village has one card for the office supply account and three cards for the home improvement store. We judgmentally selected six months and reviewed all charges made on both accounts for those months.¹⁸ The statements included 24 home improvement store charges totaling \$4,609 and 47 office supply store charges totaling \$12,080. We found no evidence that these statements were reviewed by Village officials and no evidence that the Board audited 65 of the 71 charges totaling \$14,744. When originally provided to us, the claims were missing 18 receipts totaling \$4,065 for purchases made at the home improvement store and 38 receipts totaling \$9,570 made at the office supply store. The Deputy Treasurer was able to obtain all but one of the home improvement store receipts totaling \$770 and two of the office supply store receipts totaling \$214. Further, the Treasurer paid \$837 more

¹⁸ Home improvement cards – July 2012, October 2012, January 2013, April 2013, July 2013 and October 2013. Office supply store – August 2012, November 2012, February 2013, May 2013, August 2013 and November 2013.

than the invoices supporting two of the six payments to the office supply store. The Deputy Treasurer could not explain these additional amounts paid. Due to the lack of detail information on 12 of the 23 receipts, Village officials would not be able to determine the validity of \$3,275 in home improvement store charges.

Without comprehensive procedures to ensure enforcement of Board-adopted policy, the Village has little control over the use of credit and purchase cards. This increases the risk that the Village will incur costs that are not for valid Village purchases.

Recommendations

8. The Board should consider revising its credit card policy to include identification of those individuals authorized to use the credit and/or purchase cards, set applicable credit limits, provide dollar limits for purchases, describe the types of purchases permitted and the documentation required to support the purchase.
9. The Board should authorize all users of Village credit and purchase cards. The authorized user list should be periodically reviewed and updated.
10. The Treasurer should develop procedures to ensure that the Board-adopted policy is followed. Procedures should ensure, among other things, that all credit card claims contain adequate supporting documentation to indicate that they are valid Village charges.
11. The Treasurer should ensure that all credit card invoices are scrutinized for unusual or odd charges. Any suspicious charges should be investigated and resolved prior to payment of the invoice.
12. The Treasurer should ensure that credit card payments are made timely to avoid late fees and finance charges.
13. The Board should ensure that credit card accounts do not allow for cash advances.
14. The Board should audit all credit card claims for payment against the Village, before they are paid, ensuring that each claim contains sufficient documentation and represents a valid Village expenditure.
15. The Board should follow-up on overpayments made to the office supply store and seek reimbursement if applicable.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages. The response sufficiently explains the relevance of the information included in the attachments. Therefore, the attachments are not included.

Mayor
Bill Biondi
Deputy Mayor
Nick Busa
Village Clerk
Sue Draghi



Trustees
Gary Stiriz
Maura Sperry
Bruce Summa

August 5, 2014

VIA CERTIFIED MAIL, RRR

Mr. Ira McCracken
Office of the State Comptroller
NYS Office Building, Rm. 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788

Re: Report of Examination
Treasurer's Office and Credit Cards
Period: June 1, 2012 – November 30, 2013

Dear Mr. McCracken:

Thank you for the opportunity to submit this response to the draft audit and request that it be included as a part of the final audit report. The preliminary draft findings as a result of the former Treasurer's performance audit and credit card policy audit of the Village of Mastic Beach have resulted in an extensive review of financial policies of the Village. First and foremost, employment of a new, experienced, part time Treasurer who is committed to proper procedures, understands municipal regulations, has extensive knowledge of Village Financial systems and controls and can act independently will assist in addressing the concerns regarding the role the former Treasurer filled. For the past three months, our current Treasurer has been working with the Deputy Treasurer in reviewing the financial activity, signing checks as approved by the Board of Trustees, and engaged in educational discussions with her, so as to reduce the exposures to issues brought up in the Audit.

Review of the policies has already begun, with the establishment of the petty cash fund, designed to operate as suggested in the audit report. In addition monthly Treasurers reports are presented to the Board of Trustees along with bank reconciliations, in compliance with the recommendations in the audit report. Transfers of funds are now requested at each Board meeting immediately upon the knowledge that an account may be exceeded, and prior to a commitment of funds. This complies with the Comptroller's regulation that spending Village funds must be made from existing appropriations.

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As a matter of policy, the Village Treasurer, has begun signing all disbursement checks after reviewing the abstract and reviewing the voucher package for completeness and compliance. As time passes, further internal controls will be implemented to safeguard disbursements, and to mitigate fraud risks. Among the most critical is control of credit card expenditures. This is an area where Villages with limited staff leave themselves potentially open to issues, particularly where gasoline purchases must be done (for practical purposes) from local fuel stations. We are reviewing the compensating controls in this area and expect to implement tighter regulations. We have also begun keeping the signed-off credit card evidence with the voucher that pays the credit card provider, as this was a major point regarding the documentation and support. The Village has also terminated the prior fuel card supplier to avoid late fees and finance charges.

All recommendations regarding credit cards, including defining users, conditions where they can be used, proper adherence to turning in the receipt, and identification of the actual purchaser through a PIN number or signature validation will be implemented.

As your office knows, following the close of the audit, and well prior to the draft report, the Village Board of Trustees adopted by resolution formal fiscal policies to address the identified shortcomings, including Resolution 19-2014 "Authorizing Certain Employees and Village Officials to use the Village Credit Cards"; Resolution 52- 2014 "Authorizing Certain Village Officials to draft Village checks", Resolution 51-2014 "Authorizing a Petty Cash Account"; as well as Resolution 94-2013 "Adopting the Village Procurement Policy for Fiscal Year 2013-2014." These resolutions were recommended by the Comptroller's Office and adopted unanimously by the Board of Trustees. Copies are attached for your review.

In light of the substantial progress towards compliance, as well as the planned compliance outlined herein, we respectfully request that the Comptroller's office deem this response as the Village's "Corrective Action Plan." Although the audit report is very critical, the courtesy and professionalism of the Comptroller's office in assisting the Village in correcting system flaws and addressing the safety of taxpayers' money is appreciated. We thank you for the opportunity to discuss these matters during the exit conference and are confident that the audit report issues have been addressed.

Very truly yours.

William Biondi, Mayor

encs.

c: James Olivo, Treasurer
Susan J. Draghi, Village Clerk
Brian T. Egan, Village Attorney
Board of Trustees

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls 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 receipts and disbursements, purchasing, payroll and personal services, information technology and the internal operations of the individual Village departments.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies and procedures 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 or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected the Treasurer's office and controls over credit cards for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We reviewed the minutes of the Board's meetings and the employee manual to determine what policies and procedures were available for officers and employees.
- We examined Village audit reports and management reports.
- We interviewed the Treasurer and Deputy Treasurer to gain an understanding of the Village's financial operations and the duties they perform.
- We interviewed the Village Administrator and the Mayor to determine control procedures for the credit/purchase cards and the fuel cards.
- We interviewed the Mayor and a Board Trustee to determine what reports the Board receives from the Treasurer.
- We selected and reviewed all single year appropriation lines with a negative variance in the 2013-14 budget status report. We cross-referenced those lines to the 2012-13 budget and reviewed those line items which also had a negative variance in the 2012-13 budget.
- We reviewed six months of bank statements - September 2012, November 2012, January 2013, March 2013, April 2013 and November 2013 - randomly selected using a random number generator formula. Sample size was one third of the audit period. We examined all checks to determine the signer of the checks.

- We examined all checks made out to cash during the audit period and available supporting documentation.
- We attempted to examine six months of credit or purchase cards statements. Since there were three different credit/purchase card accounts, we alphabetized them by vendor name and then started with the first month of the audit period (June 2012), rotating months for each card, ending with the last month of the audit period (November 2013). This method produced the following sample for the general purpose credit card: June 2012, September 2012, December 2012, March 2013, June 2013 and September 2013. However, it was adjusted because statements for four of the six months did not exist since the card was not obtained until March 2013. In order to have a larger sample than two, we judgmentally selected an additional two months. (April 2013 chosen because it was the first statement for the card and November 2013 chosen because it was the last month of our audit period.)
- We attempted to examine six months of credit or purchase cards statements. Since there were three different credit/purchase card accounts, we alphabetized them by vendor name and then started with the first month of the audit period (June 2012), rotating months for each card, ending with the last month of the audit period (November 2013). This method produced the following sample for the home improvement purchase card: July 2012, October 2012, January 2013, April 2013, July 2013 and October 2013. October 2013 had no charges for this account, so our sample ended up being only five months.
- We attempted to examine six months of credit or purchase cards statements. Since there were three different credit/purchase card accounts, we alphabetized them by vendor name and then started with the first month of the audit period (June 2012), rotating months for each card, ending with the last month of the audit period (November 2013). This method produced the following sample for the office supply purchase card: August 2012, November 2012, February 2013, May 2013, August 2013 and November 2013.
- We examined the credit card and purchase card statements for sample months and determined if there were receipts attached, if they were itemized and if the claim appeared to be a valid Village expenditure. We looked for evidence that the invoice had been reviewed by a department manager and that the claim packet had been audited by the Board by reviewing packets for vouchers with initials of department heads or the signatures of Board members.
- We examined six months of fuel credit card statements chosen judgmentally based on dollar amount.

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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