



Village of West Hampton Dunes Financial Operations

Report of Examination

Period Covered:

June 1, 2011 — December 31, 2012

2013M-390



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 Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of West Hampton Dunes, entitled Financial Operations. 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 West Hampton Dunes (Village) is located in the Town of Southampton in Suffolk County, and has a population of approximately 55 people. The Village is governed by a Village Board (Board), which is responsible for oversight of the Village's financial affairs. The Board includes the Mayor, who serves as the chief executive officer. The Village Treasurer (Treasurer) is the chief fiscal officer (CFO) and budget officer.

General fund expenditures reported for fiscal years 2011-12 and 2012-13 were \$1,337,445 and \$1,469,736, respectively. General fund expenditures are funded primarily with real property taxes, user charges and State aid.

Scope and Objective

The objective of our audit was to determine whether the Board properly monitored the Village's financial operations for the period June 1, 2011 through December 31, 2012. We extended our review of financial condition back to 2009 and forward to May 31, 2013. Our audit addressed the following related questions:

- Did the Treasurer effectively perform the duties of CFO and budget officer?
- Has the Board adopted realistic budgets, retained sufficient fund balance and taken action to maintain fiscal stability?
- Has the Board provided adequate oversight of Village operations?

Audit Results

The Board did not properly segregate the Treasurer's duties or provide sufficient oversight of her work. The Treasurer did not maintain accurate and up-to-date financial information and did not prepare monthly bank reconciliations. As a result, she could not provide the Board with a budget document in the proper format with accurate budget information or accurate and timely monthly financial information which limited the Board's ability to monitor the budget. In addition, the Treasurer did not file the Village's annual financial reports with the State Comptroller's Office in a timely manner.¹ Finally, the Board did not conduct an annual audit of the Treasurer's records. Had the Board conducted the required annual audits it may have identified these deficiencies as well as recurring operating deficits and declining fund balance.

¹ The annual update document (AUD) for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12 were filed by the Treasurer between 189 and 951 days after the required filing dates.

The Village's financial condition has deteriorated because of the Board's decisions when developing and adopting annual operating budgets and its failure to appropriately monitor financial operations. The Board lacked the financial information essential to make informed decisions when adopting the budget. In addition to the ineffective budgeting practices, the Village's financial position also deteriorated because the Board did not monitor budget implementation and did not require the Treasurer to prepare and submit periodic budget-to-actual reports for review. Consequently, the estimated revenues and appropriations in adopted budgets were not realistic, resulting in annual operating deficits totaling \$445,023 over four years. These budgeting practices and the negative restatement of fund balance of \$21,532 contributed to the decline in general fund balance from an unexpended surplus² of \$318,821 at May 31, 2009 to a reported fund deficit of \$147,734 at May 31, 2013.

As a result of ineffective budgeting practices and deteriorating financial condition, the Village experienced a cash flow shortage in the 2012-13 fiscal year. The Board inappropriately used proceeds from a \$500,000 bond anticipation note (BAN) to alleviate the shortage. After we informed the Board of the restrictions on BAN proceeds, it issued a \$200,000 budget note. With a budget of \$1,341,273, the most the Village could have issued in budget notes would have been \$67,064. By authorizing and issuing a \$200,000 budget note, the Board exceeded the 5 percent limit by almost \$133,000.

The Board is also not properly overseeing the Village's financial operations. While the Board has adopted certain policies, it has not ensured that they were adhered to or updated to reflect their original intent. For example, the Board did not update its procurement policy to include the Village's method of soliciting competition for procuring services from professional service providers and did not adequately enforce its own policies relating to documentation and authorization necessary to justify travel expenses. Additionally, the Board has not adopted a policy that provides guidance for the proper use of credit cards. Finally, the Board does not conduct a deliberate and thorough audit of all claims. As a result, the Board does not have adequate assurance that all payments are for valid Village purposes.

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 disagreed with the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the Village's response letter.

² The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

Introduction

Background

The Village of West Hampton Dunes (Village) is located in the Town of Southampton in Suffolk County and has a population of approximately 55 people. The Village is governed by a Village Board (Board), which comprises a Mayor and four Trustees. The Board is the legislative body responsible for the general management and control of the Village's financial affairs. The Mayor serves as the chief executive officer. As the full-time, paid Mayor, he is responsible for the Village's day-to-day management and acts also as Commissioner of the Village Constabulary.³

The appointed Village Treasurer (Treasurer) is the chief fiscal officer (CFO) and the budget officer. As CFO, the Treasurer is responsible for maintaining custody of Village moneys, maintaining appropriate accounting records and preparing monthly and annual financial reports. As budget officer, the Treasurer is responsible for preparing the annual tentative operating budget for Board's adoption. The Village Clerk maintains the Board minutes and other historical records and is responsible for billing and collecting property taxes and other fees.

General fund expenditures reported for fiscal years 2011-12 and 2012-13 were \$1,337,445 and \$1,469,736, respectively. General fund expenditures are funded primarily with real property taxes, user charges and State aid. During the audit period, the Village employed six full-time and nine part-time employees.

Objective

The objective of our audit was to determine whether the Board properly monitored the Village's financial operations. Our audit addressed the following related questions:

- Did the Treasurer effectively perform the duties of CFO and budget officer?
- Has the Board adopted realistic budgets, retained sufficient fund balance and taken action to maintain fiscal stability?
- Has the Board provided adequate oversight of Village operations?

³ In 1996, the Village, under the authority of a court order, formed a law enforcement agency to better serve the needs of the community.

**Scope and
Methodology**

We examined the Board's oversight of the Village's financial condition and financial operations, including budgeting practices and the Treasurer's duties for the period June 1, 2011 through December 31, 2012. We extended our review of the Village's financial condition back to 2009 and forward to May 31, 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 C 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 disagreed with the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the Village's response letter.

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 Clerk's office.

Treasurer's Duties

The Treasurer, as the Village's CFO, is responsible for custody of all Village money, is the signatory on Village bank accounts and is responsible for making payment on claims (vendor bills) after the Board audits and approves them. The Mayor and the Board are responsible for the management of all Village property and ensuring that all Village moneys are accounted for and disbursed only for proper Village purposes. This responsibility includes segregating key duties so that the same person does not control all or most aspects in a financial transaction, or otherwise instituting compensating controls such as independent reviews.

The Treasurer is responsible for maintaining accurate and timely accounting records. Using those records, the Treasurer is responsible for providing the Board with detailed monthly financial reports. Timely and accurate financial information is essential for the Board to monitor and evaluate the Village's true financial condition as well as make informed decisions about Village finances or take appropriate actions to address adverse financial issues as they occur.

The Treasurer is also the budget officer and is responsible for preparing the tentative budget for the Board's review and approval. The form and content of the tentative budget should provide the Board with the information needed to determine if budget estimates are reasonable. The Treasurer is also required to complete and submit the Village's annual financial report to the Office of the State Comptroller (OSC) no later than 60 days after the close of the fiscal year. The Board is responsible for conducting an annual audit of the Treasurer's records.

The Board did not properly segregate the Treasurer's duties or provide sufficient oversight of her work. The Treasurer did not maintain accurate and up-to-date financial information and did not prepare monthly bank reconciliations. As a result, she did not provide the Board with a budget document in the proper format with accurate budget information or accurate and timely monthly financial information which limited the Board's ability to monitor the budget and the Village's financial operations.

In addition, the Treasurer did not file the Village's annual financial reports with OSC in a timely manner.⁴ Finally, the Board did not

⁴ The annual update document (AUD) for fiscal years 2008-09, 2009-10, 2010-11, and 2011-12 were filed by the Treasurer between 189 days and 951 after the required filing dates.

conduct an annual audit of the Treasurer's records. Had the Board conducted these required annual audits, it may have identified these deficiencies as well as the recurring operating deficits and declining fund balance.

Segregation of Duties

An effective system of internal controls provides for the segregation of duties so that no one individual controls all phases of a transaction. The same person should not have the ability to authorize, execute and record a transaction or control the entire cash receipt and disbursement process. Proper segregation of duties aids in the prevention and timely detection of errors and fraudulent activity. When sufficient segregation of duties is not possible, the Board should provide sufficient oversight by implementing compensating controls. Compensating controls could include routine reviews by someone other than the Treasurer of bank statements, canceled checks, cash receipts records and bank reconciliations and a comparison of these financial records to the monthly Treasurer's reports.

The Board did not establish any compensating controls over the Treasurer's financial activities. The Treasurer is responsible for all aspects of the Village's financial and recordkeeping duties, including depositing moneys (e.g., property taxes and permit fees), writing checks, making bank transfers, recording transactions, maintaining accounting records and reconciling bank accounts. Payrolls are not certified by a Board member and payroll transactions are not reviewed by anyone other than the Treasurer. The Treasurer makes debt payments and bank transfers without any prior authorization or a review of transactions. When one person controls all aspects of financial transactions without compensating controls there is an increased risk that Village funds could be misappropriated.

Records and Reports

Complete and accurate accounting records and reports are essential tools that the Board should use to monitor Village financial operations. Financial records should be maintained in a timely manner. Cash journals and general ledgers should be maintained, along with subsidiary ledgers, to keep track of revenues and expenditures for each fund. Entries into the financial accounting software should be recorded in a timely manner to ensure the financial reports accurately reflect the Village's financial activity. Good management practices require the Treasurer to provide monthly financial reports to the Board that include cash balances, budget-to-actual comparisons of revenues and expenditures and bank reconciliations along with bank statements and canceled checks.

The Treasurer does not record transactions in an accurate or timely manner.⁵ Therefore, the cash receipt journals or detailed revenue and expenditure ledgers are not accurate or up-to-date. For example, we found that 27 disbursements totaling \$30,632 made on March 12, 2012 were not posted in the accounting records until September 06, 2012, or 178 days after payment. Additionally, we found no evidence that bank reconciliations were prepared and available for review. Although requested, the Treasurer could not provide us with bank reconciliations for November and December 2012. Instead, these bank reconciliations were later completed by the accounting firm hired to prepare the Village's past due AUDs, and contained adjusting entries dating back to the 2000 fiscal year.

The Treasurer did not prepare or submit monthly reports to the Board, and the Board did not require the Treasurer to provide monthly reports. Although the Treasurer indicated that the Board "reviews" her work, we found that the Treasurer does not provide the Board with monthly statements of cash receipts and disbursements, bank balances, bank reconciliations, budget-to-actual reports or fund balance projections showing the Village's current financial position. Therefore, the Board could not properly monitor the Treasurer's operations or make informed decisions about Village financial operations.

Because of the many weaknesses in internal controls over the Treasurer's duties, we examined all bank statements and canceled checks processed during the audit period to verify the integrity of the checks issued, to determine whether checks were signed as required by the Board and to determine whether disbursements were properly accounted for in the Village's accounting system. The Village maintains three checking accounts⁶ and uses the general fund checking account for the majority of its transactions.⁷ We identified the following issues:

- The one check issued from the reserve account for the purchase of a new quad vehicle for the Constabulary in the amount of \$7,411 was only signed by the Treasurer, was not

⁵ All Village non-payroll checks are handwritten and later entered into the financial software. Payroll is processed by an outside vendor. However, the Treasurer is responsible for entering the payroll information into the financial software.

⁶ One account was inactive and had a balance of \$87 at the beginning of the audit period. The reserve account had three transactions for the audit period—one check was issued and two electronic transfers were made.

⁷ The following transactions were processed out of the general fund checking account: 608 non-payroll checks totaling \$984,443; 129 checks totaling \$146,746 for payroll-related costs; 123 transfers (debits) totaling \$520,460 for payroll direct deposits, \$262,032 for tax payments and \$3,746 for payroll company fees; 10 wire transfers totaling \$143,986 for debt service payments; and 20 electronic payments to the New York State Employees' Retirement System (ERS) totaling \$81,247.

listed on the abstract of audited claims and an invoice was not on file to support this payment. Village officials requested a copy of the invoice from the vendor for our review and the payment appeared to be a proper Village charge. However, the date of the invoice was 30 days after the date of the check and this transaction was not entered in the accounting records until 592 days after the check issue date.

- Bank transfers of \$50,000 and \$25,000 were made from the reserve account to the general fund and recorded in the books 185 and 165 days, respectively, after the actual transfer date.
- Of the 608 general fund non-payroll disbursement checks, 470 (over 77 percent) were recorded in the Village records more than a month after the checks were written. The remaining 138 checks were recorded within 31 days. Of the 470 checks, 209 were recorded between 100 and 178 days after they were written.
- The Treasurer did not record disbursements made between March 5, 2012 and September 6, 2012 in a timely manner. Non-payroll check disbursements made in March, April and May 2012 were recorded in September 2012 while payroll transactions for the period March 7, 2012 through October 17, 2012 were recorded at the end of October 2012.
- The Treasurer made a \$61,775 electronic payment to ERS on January 31, 2012. However, this transaction was not recorded in the accounting records until March 5, 2012 and was recorded in the inaccurate amount of \$64,445. An adjustment to correct this entry was made on February 8, 2013, a year after the payment had been made.
- Payroll disbursements for the employer's share of Social Security and Medicare were not properly recorded. For example, for the 19 payroll periods from July 13, 2011 through March 21, 2012, the employer's share of Social Security and Medicare was \$34,772, but the Treasurer recorded \$25,738 in the accounting records.
- Three checks totaling \$5,175 were entered into the accounting records even though they were never issued because they had been voided on the abstract of audited claims.
- The Treasurer issued two duplicate checks totaling \$1,022. One of the checks was originally issued on November 18, 2011 to a law firm for \$280 and another check was issued on

June 15, 2012 to the same law firm for \$1,290 (two separate invoices, \$742 and \$548). The law firm re-billed the Village for the \$280 on January 4, 2012 and the Village paid that amount on January 17, 2012. The law firm also re-billed the \$742 on August 7, 2012 and the Village issued a new check on August 10, 2012. However, the original checks remained outstanding during this period and were still recorded in the Village's books as of May 2013.

We also found significant differences between the amounts recorded in the general ledger and the amounts reported in the AUD for debt service and retirement payments. This occurred because the Treasurer did not maintain proper account codes to record Village indebtedness, transactions were not posted in a timely manner and the employees' share of retirement contributions were incorrectly recorded as Village expenditures.

Table 1: Recording Errors

	2010-11 Fiscal Year		
Expenditure Accounts	General Ledger	Bank Statements	Reported as per AUD
Debt Service	\$0	\$81,186	\$101,176
Road Bond ^a	\$80,453	\$0	\$0
NYS ERS	\$75,171	\$64,445	\$75,171
Totals	\$155,624	\$145,631	\$176,347
	2011-12 Fiscal Year		
Debt Service	\$139,364	\$83,260	\$93,301
Road Bond ^a	\$5,671	\$0	\$0
NYS ERS	\$70,705	\$61,775	\$72,846
Totals	\$215,740	\$145,035	\$166,147

^a The Road Bond account was used to record principal and interest expenditures for all Village debt.

Budget Format

Village Law prescribes the format and content of the tentative budget and requires the budget officer to include a schedule of actual revenues and expenditures for the last completed fiscal year, a schedule of current year budget and actual revenues and expenditures to date, a schedule of fund balance estimated to be available at the close of the current fiscal year and a detailed schedule of wages and salaries.

We found that the Treasurer, as budget officer, did not prepare and present the tentative budget to the Board for approval in accordance with the format prescribed by Village Law. None of the budgets adopted for fiscal years 2009-10 through 2012-13 contained all of the required financial information needed by the Board to determine whether budget estimates were reasonable. Specifically, none of the

budgets contained a schedule of actual revenues and expenditures for the last completed fiscal year or budget-to-actual information from the current year-to-date. The estimate of available fund balance at the close of the fiscal year was not included nor was a detailed schedule of wages and salaries included. The tentative budgets as adopted by the Board consisted of a schedule comparing the current year proposed revenues and appropriations with the ensuing year's budgeted revenues and appropriations and a column showing differences between the two budgeted amounts.⁸

It is important that the budget officer prepares the tentative budget in the format required by law because this provides the Board with historical and current year-to-date financial information. This information is essential for assessing the reasonableness of proposed revenues and expenditures. Without it, the Board cannot make informed decisions about Village finances. Consequently, the Board has adopted budgets that were not structurally sound because they were based on incomplete financial data and on revenue and appropriation estimates that were unrealistic. As a result, annual operating deficits occurred which undermined the Village's financial position and depleted its fund balance.

Annual Financial Report

Local governments are required by law to annually complete and file a detailed report of all financial activities for the preceding year (the Annual Update Document, AUD) with OSC. This report provides the Board, OSC and Village residents with a tool for monitoring financial operations. The Treasurer is required to complete and submit the AUD no later than 60 days after the close of the fiscal year. While it is the Treasurer's responsibility to complete and file this report, the Board should have procedures in place to review this report for accuracy and ensure that the Treasurer completes and submits it in a timely manner.

Over the last four fiscal years, the Treasurer filed the Village's AUD late by as much as 951 days after the statutory filing due date. OSC notified the Treasurer and the Board regarding the Treasurer's failure to file the AUDs in a timely manner. Despite having been sent notices of non-compliance, the Treasurer continued to not file in a timely manner.

⁸ The adopted budget for fiscal year 2010-11 consisted of the proposed estimated revenues and appropriations for that fiscal year.

Table 2: AUD Filing Dates			
Fiscal Year	Statutory Filing Date	Date Filed	Days Late
2008-09	August 1, 2009	March 9, 2012	951
2009-10	August 1, 2010	April 20, 2012	627
2010-11	August 1, 2011	May 31, 2012	303
2011-12	August 1, 2012	February 26, 2013	189

The Treasurer's failure to file the AUD in a timely manner deprives the Board and taxpayers of essential financial data needed to make informed decisions about Village finances such as: timely comparative analysis of actual results from operations to current and future budgets' expectations and accurate up-to-date information on the Village's finances and its financial condition.

Annual Audit

Village Law requires the Board to annually audit, or have a Village officer, employee or an independent public accountant, audit the Treasurer's financial records. The annual audit provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's financial activities. An annual audit can also help the Board to monitor the Treasurer's performance by providing an independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded and cash has been properly accounted for.

The Board has not performed annual audits of the Treasurer's records and reports since the Village was created in 1993. We found no documentation or evidence in the Board minutes to show that the Board had audited, or caused to be audited, the Treasurer's records and reports. Without an annual audit, the Board does not have assurance that the Treasurer properly accounted for all the Village's financial resources, and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

The Board's failure to properly oversee the Treasurer's duties created an environment that allowed the Treasurer to maintain incomplete financial records and allow errors and irregularities to occur without being detected and corrected in a timely manner. As a result, the Treasurer did not prepare monthly financial reports essential for the Board to adequately monitor and evaluate Village finances in a timely manner, did not present the Board with a budget in the proper format or ensure that the AUD was filed timely and accurately. Accurate and timely financial reports are essential tools that the Mayor and the Board should use to make prudent and informed financial decisions

when preparing and adopting the annual budget. The lack of such financial reports contributed to adopting budgets that were not structurally balanced.

Recommendations

1. The Board should segregate the Treasurer's duties to ensure that financial transactions are not handled by the same individual in each phase of a process. The Board should either closely monitor the Treasurer duties or assign a Village employee or Board member to review, monitor and approve the Treasurer's work.
2. The Board should require the Treasurer to record all Village transactions in the accounting records accurately and in a timely manner. The Board should also require that the Treasurer file monthly financial reports with the Board, including budget-to-actual revenue and expenditure reports, trial balances, and cash receipts and disbursement reports.
3. The Treasurer or a designated individual should prepare monthly bank reconciliations and complete them timely. If the individual who prepares the reconciliation is not independent from the recordkeeping and check-signing functions, then the Board should designate another official to review and approve the bank reconciliations.
4. The budget officer should prepare and submit tentative budgets to the Board containing all required schedules and financial information and in the formats required by law.
5. The Treasurer should file annual financial reports with OSC within 60 days following the close of each fiscal year, as required by law, and ensure that the reports are accurate.
6. The Board should annually audit, or cause an audit, of the Treasurer's financial records.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the Village and the taxpayers that fund its operations. This responsibility requires Board members to balance the level of services desired and expected by Village residents with the ability and willingness of the residents to pay for such services. A key measure of financial condition is the level of fund balance, which represents the accumulation of resources remaining from prior fiscal years.

Accordingly, it is important for the Board to adopt realistic budgets and monitor them against actual revenues and expenditures throughout the year. Operating deficits (e.g., when budgeted appropriations are overexpended, expected revenues are not received, or both) can indicate that budgets are not realistic and/or not properly monitored. The Law authorizes villages to issue budget notes to alleviate temporary cash-flow difficulties.

The Village's financial condition has deteriorated because of the Board's decisions when developing and adopting annual operating budgets and its failure to appropriately monitor financial operations. The Board lacked the financial information essential to make informed decisions when adopting the budget. In addition to the ineffective budgeting practices, the Village's financial position also deteriorated because the Board did not monitor budget implementation and did not require the Treasurer to prepare and submit periodic budget-to-actual reports for review. Consequently, the estimated revenues and appropriations in adopted budgets were not realistic, resulting in annual operating deficits totaling \$445,023 over four years. These budgeting practices and the negative restatement of fund balance of \$21,532 contributed to the decline in general fund balance, from an unexpended surplus⁹ of \$318,821 at May 31, 2009 to a reported fund deficit of \$147,734 at May 31, 2013.

⁹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

As a result of ineffective budgeting practices and deteriorating financial condition, the Village experienced a cash flow shortage in the 2012-13 fiscal year. The Board inappropriately used proceeds from a \$500,000 bond anticipation note (BAN) to alleviate the shortage. After we informed the Board of the restrictions on BAN proceeds, it issued a \$200,000 budget note.

Fund Balance

A key measure of a local government's financial condition is its level of fund balance. Fund balance is the difference between revenues and expenditures accumulated over time. Fund balance can be used to manage unexpected occurrences such as unanticipated shortfalls in revenues or unexpected increases in expenditures. A continuous decline in unexpended surplus funds indicates a deteriorating financial condition. Village officials are responsible for maintaining a level of fund balance that is sufficient to provide an adequate cash flow. Without a healthy and reasonable amount of unexpended surplus funds, the Village cannot absorb unexpected financial events and may need to rely on borrowing to manage such events.

Since at least 2010, tentative budgets presented to the Board for approval lacked the financial information essential for the Board to make informed budget decisions. Consequently, estimated revenues and appropriations in the adopted budgets were not accurate or realistic and resulted in annual operating deficits totaling \$445,023 over four years. Although Village officials are precluded from committing Village resources or incurring expenditures in excess of amounts appropriated in the budget, they overexpended budget appropriations in three out of the four fiscal years by as much as \$128,000. As a result of these budgeting practices and the negative restatement of fund balance of \$21,532, the general fund balance declined by a total of \$466,555 from an unexpended surplus of \$318,821 at May 31, 2009 to a reported fund deficit of \$147,734 at May 31, 2013, or 10 percent of reported general fund expenditures. Table 3 shows the Village's general fund balance and results of operations for fiscal year 2009-10 through 2012-13.

Table 3: General Fund – Fund Balance and Results of Operation ^a					
	2009-10	2010-11	2011-12	2012-13	Totals
Beginning Fund Balance	\$318,821	\$287,660	\$104,239	(\$25,190)	
Revenue - Over/(Under) Budget	(\$35,737)	(\$70,532)	(\$78,912)	\$5,919	(\$179,262)
Expenditures - (Over)/Under Budget	\$4,576	(\$112,889)	(\$28,985)	(\$128,463)	(\$265,761)
Operating Surplus/(Deficit)	(\$31,161)	(\$183,421)	(\$107,897)	(\$122,544)	(\$445,023)
Prior Period Adjustments	\$0	\$0	(\$21,532)	\$0	
Year-End Fund Balance	\$287,660	\$104,239	(\$25,190)	(\$147,734)	

^a From unaudited financial statements as reported in the AUDs filed with OSC.

Debt Proceeds and Cash Flow

If the Board continues to adopt unrealistic budgets that are based on incomplete financial information, it may not be able to manage or eliminate the Village's fund deficit without either disrupting service levels or substantially increasing property taxes.

A local government may experience cash flow deficiencies when its fund balance is in a deficit position. In the event that appropriations provided in the adopted budget are not sufficient to meet current operating needs, the Board may authorize the issuance of budget notes to supplement such appropriations provided that the amount authorized does not exceed 5 percent of the budget. The budget note must be repaid through an appropriation included in the next budget adopted after the note is issued. Although proceeds from budget notes are used to fund operations, proceeds for long-term bonds may only be used for the purpose for which they were authorized and cannot be used to fund general fund operations.

After sustaining annual operating deficits and depleting its general fund balance, the Village experienced cash flow deficiencies during the 2012-13 fiscal year and used proceeds of BANs,¹⁰ for general fund operating purposes. While on-site, we found that, on April 4, 2013, Village officials deposited \$500,000 in BAN proceeds into the general fund checking account and used a portion of the proceeds to pay for ordinary general fund expenditures. We informed Village officials that by law the Village is prohibited from using bond proceeds for purposes other than those for which the bonds were authorized. Subsequently, on May 19, 2013 and after the Board had adopted the 2013-14 budget, the Board authorized the issuance of a \$200,000 budget note to provide funds for 2012-13 operations. The proceeds from the budget note were deposited into the general fund checking account on May 24, 2013. With a budget of \$1,341,273, the most the Village could have issued in budget notes would have been \$67,064. By authorizing and issuing a \$200,000 budget note, the Board exceeded the 5 percent limit by almost \$133,000.

If Village officials continue to allow expenditures to exceed appropriations, moneys will not be available for necessary expenditures, which could limit the Village's ability to provide services to its residents. Furthermore, sustaining continued operating deficits depletes fund balance, leaving insufficient funds at year end for cash flow purposes and to provide for contingencies and unexpected events. Moreover, if the Village continues to adopt budgets without taking into consideration the current and prior years' actual revenues and expenditures trends, it will continue to adopt budgets that are not structurally sound. As a result, Village officials may continue to face

¹⁰ Issued to finance a capital project for the installation and restoration of snow fencing

additional budgetary challenges that will hamper their efforts to fund current services with limited recurring revenues and to reverse the Village's negative fund balance.

Recommendations

7. The Board should adopt structurally balanced budgets that include realistic estimates of revenues and appropriations. The Board should carefully monitor budgets to prevent the recurrence of annual operating deficits.
8. The budget officer should inform the Board whenever an appropriation becomes overexpended so that the Board may provide additional appropriations or take other actions to prevent appropriation from becoming overexpended, as provided by law.
9. The Board should develop and implement a financial plan to eliminate the general fund deficit.
10. Village officials should discontinue using BAN proceeds for operating purposes.
11. Unless authorized by law, the Board may not authorize the issuance of budget notes in excess of the 5 percent limit.

Board Oversight

The Board is responsible for overseeing the Village's operations and ensuring that policies and procedures are in place so that cash and other resources are properly safeguarded, transactions are properly authorized and recorded, and financial reports are timely, accurate and reliable. Written policies and procedures also provide evidence of management's priorities, its values and its commitment to internal controls. An essential part of an effective control system is for Board members to perform a deliberate and thorough audit of claims before the disbursement of Village moneys.

The Board is not properly overseeing the Village's financial operations. While the Board has adopted certain policies, it has not ensured that they were adhered to or updated to reflect their original intent. For example, the Board did not update its procurement policy to include the Village's method of soliciting competition for procuring services from professional service providers, and did not adequately enforce its own policies relating to documentation and authorization necessary to justify travel expenses. Additionally, the Board has not adopted a policy that provides guidance for the proper use of credit cards. Finally, the Board also does not conduct a deliberate and thorough audit of all claims. As a result, the Board does not have adequate assurance that all payments are for valid Village purposes.

Professional Services

General Municipal Law (GML) requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding, such as professional services, to ensure that the Village obtains these services from qualified providers at the most economical cost. These policies and procedures should identify methods the Village will use to solicit competition (such as requests for proposals, RFP), and should provide for adequate documentation of the actions taken, including written contracts for services. While the Village is not legally required to use public bids for procuring professional services, using competition can help ensure that the Village obtains needed qualified services at reasonable prices and in the taxpayer's best interest. Furthermore, a written agreement for professional services provides the Village and the individual or firm furnishing services with a clearly defined and mutually agreed-upon basis for determining payment for such services.

The Village's procurement policy serves as a guide for procuring goods and services that are not subject to competitive bidding and are within certain dollar thresholds. However, the policy does not address competitive methods to be used when selecting professional

service providers. GML allows municipalities to procure the services of professionals (e.g., attorneys and consultants) without using competitive bidding. However, GML does require that local governments adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. The Village procurement policy does not establish allowable methods for the selection of professional service providers.

The Village paid a total of \$190,654 to eight¹¹ professional service providers during the audit period. Our review of claims paid to four attorneys and one environmental consultant, totaling \$174,650, disclosed that the Village did not use competition to procure these services. The Village also did not enter into a written agreement with one attorney who was paid \$1,500 and the contract with the environmental consultant did not specify the fees to be charged. In addition, the Village paid the environmental consultant \$20,431 for the purchase of goods that were not professional services, including \$17,340 for snow fencing. Because the procurement policy does not address methods for selecting professional service providers, Village officials are not ensuring that these services are obtained at the best possible price. Furthermore, without written agreements, the Village and the service provider have no formal documentation of the services to be provided and the amounts to be paid.

Credit Cards

A sound credit card policy describes the parameters for using credit cards and the procedures for monitoring card usage. It is important that the policy identifies the persons who are authorized to use the cards, specifies the documentation required to support purchases and provides procedures for monitoring their usage. Effective internal controls over the processing of credit card bills help ensure that all claims contain sufficient documentation to allow a proper audit of the charges, and to determine whether the charges are in compliance with Village policies and if the amounts claimed represent actual and necessary Village expenses. The Board must ensure that each credit card claim is itemized, documented, audited and approved before it is paid.

While the Board has formally authorized the use of credit cards for the Mayor, the Clerk and two Constables, the Board has not adopted a credit card use policy that describes when and how credit cards should be used. We reviewed 48 claims comprising 133 credit card charges incurred during the audit period totaling \$17,410. Of the 133 charges, 117¹² totaling \$14,568 did not have a receipt attached.

¹¹ Eight professional service providers were used during fiscal year 2011-12. Seven of these professionals were used again during fiscal year 2012-13.

¹² Six charges totaling \$1,370 were not audited by the Board prior to payment because the Board does not hold a December Board meeting and therefore, does not audit claims for that month. The Treasurer, however, made payments to the credit card vendor.

Consequently, the Board could not perform a proper audit of the charges. Three of the charges, totaling \$43, were finance charges due to late payments, and the other 13 charges, totaling \$2,799, were documented with receipts. However, four of the receipts totaling \$721 were not itemized; two other receipts, totaling \$863, were for alcoholic beverages, an inappropriate Village charge; and eight receipts contained sales tax charges¹³ totaling \$128.

Because the Board did not adopt adequate policies and procedures over credit cards and did not ensure that all charges were itemized and supported by original receipts, the Board could not properly audit the charges and the Village may have paid for purchases that were either not authorized or were not for a proper Village purpose.

Travel Expenditures

Many local government officers, officials and employees may find it necessary to travel to attend meetings, conferences, conventions or training classes. Travel for business purposes can involve expenditures for lodging, meals, transportation and more. GML requires that prior authorization, by Board resolution, be obtained by a traveler and entered into the Board minutes. It is important that the Board adopts formal policies that provide clear and specific guidelines for attending overnight meetings and conferences and define the allowable costs for reimbursable travel expenses. The policy should specify what documentation is required to support travel expenditures, including original receipts and evidence of and certification of attendance.

Although the Village has adopted a Meal and Travel Policy (policy) the policy is not adequate and often not followed. The policy requires the prior written approval for travel by Board resolution and outlines the allowable expenditures associated with travel. The policy does not address the documentation required to be submitted to support travel expenditures.

We reviewed travel-related expenditures charged on the Mayor's credit card during the audit period. The 47 charges, totaling \$7,225, included nine hotel stays. Village officials provided us with a list of the Mayor's nine trips, none of which were authorized or approved by the Board in advance, as required by law. In addition, the Mayor did not submit documentation or evidence of his attendance at seminars, conferences or training events for any of the nine trips. Of the 47 charges, only two were supported by receipts – one for a hotel charge of \$230 and the other for a ferry service fee of \$53.

Because the Mayor did not obtain prior Board approval and did not provide documentation, such as confirmation of his attendance and itemized receipts to support the charges, the Board should have

¹³ Generally, local governments are exempt from sales tax charges.

questioned the validity of the charges. The Board could not have properly audited the charges as submitted nor could it have determined if the charges were for proper and valid Village purposes.

Claims Processing

The audit and approval of claims is one of the Board's most critical duties and responsibilities. Village Law, with limited exceptions,¹⁴ requires the Board to audit and approve all claims against the Village prior to ordering the Treasurer to pay the claims. To properly approve claims for payment, the Board must ensure that all claims are adequately documented and supported by a voucher and include an itemized receipt or invoice to determine the nature of the charges. Claims should be mathematically correct, not include charges previously paid, represent actual and necessary Village expenditures and comply with statutory requirements and Village policies.

Our review of paid claims disclosed deficiencies which would have been detected had the Board performed a thorough claims audit. As discussed previously, the Village paid credit card claims that did not have sufficiently itemized documentation to permit a proper audit. In addition, we found discrepancies in 39 other claims, totaling \$174,650. For example:

- Of the 19 claims submitted by the Village Attorney totaling \$85,799, seven claims totaling 29,817¹⁵ were not mathematically correct.
- Three claims totaling \$22,628 submitted by another attorney and approved for payment were only supported by itemized invoices totaling \$5,387. The invoice simply indicated that the amount was nine months past due. We requested Village officials to provide us with invoices to substantiate the \$17,241 difference, but they provided invoices supporting only \$12,448 of the charges. Invoices to support the other \$4,793¹⁶ were not provided.
- Claims submitted by an attorney, totaling \$20,164, were approved and paid even though the attached invoices totaled only \$17,296.

¹⁴ The Board may authorize the payment of certain claims for public utility services, postage, freight and express charges in advance of audit. Payrolls, debt service payments and certain contractual obligations can also be paid in advance of audit. However, all such claims must be presented to the Board at the next regular meeting for audit.

¹⁵ Net difference of \$852 less than payment amounts

¹⁶ At the exit conference, Village officials provided a reconciliation of the attorney's billings and documentation to support the \$4,793 payment.

During the audit period, the Board did not audit payroll disbursements, debt service payments and payments to the NYS ERS totaling \$1,158,217,¹⁷ as required by law. Although Village Law authorizes the Treasurer to make these payments prior to being audited by the Board, the Board is responsible for auditing these payments after they are made. In addition, the Board does not meet in December but approves December payments in November, before the claims are received and audited. Consequently, the Village paid 44 claims¹⁸ totaling \$43,104 in December 2011 and 2012, without prior Board audit and approval.

The failure of the Board to audit and approve claims prior to payment or, in certain instances, after they are paid, increases the risk that the Village may make payments to ineligible parties, pay for items that are not necessary or appropriate or pay for goods or services that are unauthorized or excessive.

Recommendations

12. The Board should review and revise its procurement policy to address the use of competition when procuring professional services.
13. The Board should adopt a comprehensive credit card policy which defines who can use a credit card and when it can be used. The Board should also monitor credit card activities and conduct a proper audit of the charges to ensure that they are for actual and necessary Village purposes.
14. The Board should ensure that all travel is authorized in advance and that related expenditures are properly documented and supported.
15. Except as provided by law, the Board should audit all claims prior to payment. However, when payments can be made prior to an audit of the charges by the Board, those charges should be presented to the Board at their next scheduled meeting for subsequent audit and approval. The audit should be a thorough and deliberate examination of each claim to determine whether the charges are accurate, itemized, supported by proper documentation and are for a valid Village purpose.

¹⁷ Represents \$932,984 in payroll transactions, \$143,986 debt service payments, and \$81,247 payments to ERS

¹⁸ We did not include 20 claims totaling \$21,521 related to utilities, freight, postage, compensation and contractual payments for a term greater than one year, which can be paid prior to audit, but must be audited by the Board on the next scheduled meeting.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Mayor
Gary A. Vegliante

Trustees
Renee Brown
Michael Craig
Gary Trimarchi
Catherine Woolfson



Village Clerk
Laura Dalessandro
Village Attorney
Joseph Prokop
Building Inspector
Robert Kalfur
Commissioner of Wildlife Protection
Aram Terchunian

May 5, 2014

Ira McCracken
Chief Examiner
Local Government and School Accountability
Office of the New York State Comptroller
Hauppauge Regional Office
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge,, NY 11778

Dear Mr. McCracken,

This letter is in response to the Draft Report presented to the Village of West Hampton Dunes for the audit conducted by your office for the period June 1, 2011, through December 31, 2012 that was sent to the Village of West Hampton Dunes on March 20, 2014.

Village Initial Comments

The Village has the following initial comments regarding what the Village Board believes was the faulty methodology and procedure of the audit and Draft Report. The Village of West Hampton Dunes requests that there be significant changes in the Draft Report to correct the errors noted in this Response.

The Village of West Hampton Dunes, with three hundred and thirty (330) properties, has only the Mayor, the Village Treasurer, (the Mayor's wife), and the Village Clerk, in the Village Office. The Mayor was absent from the Village Office for surgery and treatments for much of time that the audit was conducted, as was his wife, the Village Treasurer, who was his Health Care provider during that time. The Office of the New York State Comptroller and the audit staff refused to provide any adjustment in the audit process or findings due to these significant events, and instead included unfair critical remarks about this situation in the Report.

See
Note 1
Page 43

The Draft Report repeatedly and incorrectly states that the Village of West Hampton Dunes was in a difficult financial position, and experienced operating deficits, and what are improperly

See
Note 2
Page 43

referred to as planned shortfalls, because of what the audit staff unfairly perceived as issues with the Village financial and accounting controls, planning, and procedures.

The discussion in the Draft Report regarding the financial condition of the Village with respect to financial controls, planning and procedures is incorrect and improperly ignores the fact that during the audit period the Village of West Hampton Dunes suffered several natural catastrophes of historic proportions, including Hurricane Irene, Super Storm Sandy, and various blizzards, each of which at the time that it occurred became the worst or most powerful storm event of recorded weather history.

See
Note 3
Page 43

The fact that the Village of West Hampton Dunes was able to survive these historic catastrophic events and incur only the shortfalls that are mentioned in the Report, without any of the improperly withheld State and Federal aid to which the Village is entitled, is a testament to the sound financial planning and procedures that exist in the Village of West Hampton Dunes rather than a basis for the repetitive harsh and unjustified criticism that is stated throughout the Draft Report.

See
Note 4
Page 43

Despite not receiving the Federal and State funding to which the Village was entitled, the Village of West Hampton Dunes during the audit period fulfilled its responsibility to protect the lives and property of its residents and to maintain the road and access way to Cupsogue County Park, a Suffolk County Park which is partially inside and also adjacent to the Village and which has more than three hundred thousand (300,000) visitors a year, and the Southampton Town Pikes Beach, which is located entirely within the Village and which also draws large crowds of the general public.

In addition to protecting the lives of its residents and their three hundred and thirty (330) properties from the historic catastrophic storm events that occurred during the audit period, the Village of West Hampton Dunes, because of its sound financial planning and procedures, was also able to maintain the access points and the road access to the Town and County parks located in the Village and to keep the Town and County parks open for the several hundred thousand members of the general public that visit the parks and the Village each year, which erroneously and unfairly is not even mentioned in the Draft Report.

See
Note 4
Page 43

The Draft Report incorrectly states several times that the Village was late in the inputting of financial information into the Village records during the audit period. The Village suffered computer hardware and software problems during the audit period which interrupted the entry of information or the data that had been entered had to be reviewed and confirmed. The entry of financial data was also interrupted on several occasions by the unusual weather conditions suffered by the Village during the audit period.

See
Note 5
Page 44

These circumstances were fully discussed with the audit staff during the audit and information cited by the auditor staff in the Draft Report were the result of these circumstances and were not due to lack of proper procedures or oversight by the Board as is incorrectly stated by the audit staff in the Draft Report and it is requested that the Draft Report be corrected to omit this inaccurate information and incorrect findings.

In several instances the Draft Report erroneously states that Village records that the audit staff requested were missing or not available for review, but then later in the Draft Report it is stated that the records that were claimed to be missing were reviewed. All records that were requested by the audit staff were timely provided to them by the Village, and any reference in the Draft Report of a Village record as missing or not available must be removed from the Report.

See
Note 6
Page 44

During the audit process there were numerous times that records that were provided to the audit staff were misplaced by the audit staff, and the Village often had to remind the audit staff that they had already been provided with the Village records that they were seeking, in some cases showing the audit staff where the Village records were located in their files.

See
Note 7
Page 44

The Draft Report contains numerous factual errors, and intentional partial statements of fact and omissions of facts and information that were available to or known by the audit staff throughout the Draft Report and which in many instances are improperly amplified by the Draft Report into derogatory remarks about the Village or the Village officials and staff.

As an example, the Draft Report states that all AUD forms have been untimely filed by the Treasurer, which is a partial statement of the underlying information and an omission of information which is contradictory to this statement. The Village of West Hampton Dunes was forced by New York State to maintain expensive litigation with the Office of the New York State Comptroller for many years because the Comptroller would not accept the AUDs that were properly filed by the Village. The result of the litigation was that the Village was correct, and the AUDs that the Village had been attempting to file were finally accepted for filing by the Comptroller. The Village timely filed (with an extension) the 2013 AUD form and will timely file the 2014 form.

See
Note 8
Page 44

The Draft Report also incorrectly states that the Mayor stated that the Village of West Hampton Dunes had not retained a certified public accounting firm, which is not accurate. First, the Mayor never made this statement, and second, because the Village did retain a certified public accounting firm for the purposes stated by the Draft Report. The Village of West Hampton Dunes in fact did retain the services of a certified public accounting firm to provide audit and other services during the audit period such as the filing of the AUDs, and the audit and preparation of financial reports.

See
Note 9
Page 45

See
Note 10
Page 45

The certified public accounting firm that was retained failed to do the work for which it had been retained, through no fault of the Village, which is not the fault of the Village or the Board, and this important relevant fact should be stated in the Draft Report instead of the misstatements of fact and unnecessary derogatory remarks about the Village and its officials that are contained in this instance and throughout the Draft Report.

See
Note 11
Page 45

During the audit, the Village and the Board retained a highly qualified and respected certified public accountant who specializes in government finance, to assist the Village in the accounting and financial matters that are the subject of the Draft Report, an important relevant fact that is improperly omitted by the Draft Report.

The Village of West Hampton Dunes acquired seventeen thousand dollars (\$17,000) of snow fencing from a company that also provides professional environmental consulting services to the Village as an emergency measure to restore and protect property after Super Storm Sandy. The Draft Report erroneously and falsely refers to this legal and proper transaction in the continuing accusatory and derogatory tone of the Draft Report by claiming without any basis that the Village was attempting to avoid the Village procurement policy by purchasing the materials through one of the Villages professionals, which is absolutely false and is blatantly contradicted by the actual facts and information that was available.

See
Note 12
Page 45

The Draft Report improperly fails to accurately state first, that the snow fencing was purchased as an emergency measure, and second and more importantly, that the snow fencing was legally and properly purchased at the County and Town bid price, and that the snow fence was legally and properly purchased from the approved County and Town provider, which is also the firm that provides environmental consulting services to the Village of West Hampton Dunes.

See
Note 12
Page 45

The Draft Report similarly failed to mention that as an example of the efforts of the Village Board and officials with respect to the financial management of the Village, the snow fencing was installed by workers provided by Suffolk County at a low cost or no cost to the Village at a significant savings to the Village.

The report raises questions about bills from the Village Attorney and other professionals that were raised to the Village during the audit, but omits the fact that each of the questions raised were suitably responded to by the Village or the professional involved with an explanation or explanatory document being provided to the audit staff during the audit. The questioned Village Attorney statements reflected adjustments in billing intended to be and which was a benefit to the Village which was fully addressed in full detail in amended statements that were provided to the auditors during the audit, a fact which again is improperly and intentionally ignored by the audit staff and the Draft Report. The questions raised regarding other professional billings were also fully explained to the audit staff during the audit.

See
Note 13
Page 46

The Draft Report repetitively states the same inaccurate and unfounded derogatory remarks, and unfounded inflammatory language, about the Village and its officials that was obviously selected for sensational media purposes rather than any finding that is reflected in or justified by the Draft Report. An example of this is the use of the word irregularities. There was not one “irregularity” that was discovered or found in the entire Report or audit period. The Report should be amended to address the actual findings and to remove the derogatory remarks and the unfairly sensational comments.

See
Note 14
Page 46

The errors and omissions of the Draft Report that must be addressed and corrected are not limited to the above comments, and continue to be described in the following sections.

Specific Erroneous Conclusions and Findings

The Village Board feels that some of the conclusions and findings of the Draft Report are incorrect and should be stricken from the Draft Report. For example:

Page 9- “The Board did not establish or any compensating controls over the Treasurer’s financial activities. The Treasurer is solely responsible for all aspects of the Village’s financial and recordkeeping duties, including receiving and depositing moneys (e.g., property taxes and permit fees), writing checks, making bank transfers, recording transactions, maintaining accounting records and reconciling bank accounts. “

See
Note 15
Page 46

Every claim voucher processed for payment is signed by the Department Head AND approved for payment and signed by a Village Trustee. In addition, every check is counter signed by the Treasurer and a Village Trustee, other than whom was responsible for claim approval. Copies of these claim vouchers and cancelled checks were provided to your audit staff during their field work.

See
Note 16
Page 46

Page 13 – “The Mayor verified that the Board has never hired an independent public accounting firm to conduct an annual audit of the Treasurer’s books and records”

See
Note 9
Page 45

The Mayor never made such a statement, and in fact, the Village hired a C PA firm in 2012 to conduct an audit, which was never performed.

See
Note 11
Page 45

Page 16 – “With a budget of \$1,341,273, the most the Village could have issued in budget notes would have been \$67,064. By authorizing and issuing a \$200,000 budget note, the Board exceeded the 5 percent limit by almost \$133,000”.

The budget notes were issued to finance extraordinary unbudgeted costs directing relating to Super storm Sandy. Pursuant to Section 29.00(a)(1) of the Local Finance Law, budget notes may be issued by a Village “in such amount as the finance board shall determine to be necessary, for an “unforeseeable public emergency . . . such as . . . storm, flood . . . or other unusual peril to the lives and property of the citizens . . .” [See statutory language below.] The 5% limitation comes from Section 29.00(a)(2) which authorizes the issuance of budget notes for unbudgeted non-emergency expenses.

See
Note 17
Page 46

§ 29.00 Budget notes. a. 1. Any municipality or district corporation, other than a fire district, may issue budget notes during any fiscal year for any unforeseeable public emergency during such year such as epidemic, conflagration, riot, storm, flood, earthquake or other unusual peril to the lives and property of the citizens of such unit of government in such amount as the finance board shall determine to be necessary, but no municipality may issue such notes for emergencies on behalf of any local improvement district. Any school district may issue budget notes during any fiscal year to provide temporary school buildings or facilities in such year when such buildings or facilities are necessitated because of an unforeseeable public emergency during such year such as epidemic, conflagration, riot, storm, flood, earthquake or other unusual circumstance preventing the use in whole or in part, of the buildings or other facilities used by such school district

Page 17 – “While on-site, we found that on April 4, 2013 Village officials deposited \$500,000 in BAN proceeds into the general fund’s checking account and used a portion of the proceeds to pay for ordinary general fund expenditures. We informed Village officials that by Law the

Village is prohibited from using bond proceeds for purposes other than those for which the bonds were authorized”.

Although the proceeds of the BAN were initially deposited into the general fund checking account on April 4th, at no time were the proceeds used for operating expenses, evidenced by the attached bank statement. On April 11th, the full proceeds of the BAN were transferred to the Reserve account, intact. At no time during the seven days, did the general fund bank balance drop below \$500,000. Therefore the BAN proceeds were not expended for village operations.

See
Note 18
Page 47

Page 20 –“ Village officials provided us with a list of the Mayor’s nine trips, none of which were authorized or approved by the Board in advance, as required by law. In addition, the Mayor did not submit proof of his attendance at seminars, conferences or training events for any of the nine trips.”

The Village Board authorized the Mayor’s and all Village Officials’ conference attendance at the annual organizational meeting by adopted resolution. The Mayor is a sitting board member of the New York State Conference of Mayors (NYCOM) and the American Shore & Beach Association (ASABPA) and the lion share of his travel expenses are for attendance at board meetings throughout New York State and Washington DC. Credit Card receipts for travel and hotels (the location of the Meetings and conferences) were submitted for payment, which would prove his attendance at the meetings and conferences.

See
Note 19
Page 47

Village Responses to Individual Findings

Based upon the report’s recommendation, along with the Village’s own initiatives, many of the recommendations of the Draft Report have already been implemented during this past fiscal year.

The following responses are provided (numerically) for each of the Draft Report’s 15 findings.

1. Treasurer’s segregation of duties’ – The Village is currently implementing standard procedures that will provide for the segregation of duties for the receipt and disbursement of funds between the Clerk and the Treasurer, to provide proper internal controls.
2. Timely recording of transactions and
3. Timely monthly bank reconciliations –During the audit period, the Village Treasurer was on family medical leave, and the work of recording transactions was delayed. In 2013 the Village retained the services of a governmental CPA to advise the board on fiscal matters, and has assisted the Treasurer in implementing the following procedures:
 - a. Bank reconciliations are performed monthly in the Village’s [REDACTED] software.
 - b. The Treasurer provides the board each month, with a Balance Sheet, Budget Variance Report and report of Cash holding for the General and Capital Funds.

4. Budget Document – The Village will amend it's 2014-15 Budget Document to include all required schedules and will continue to present its annual budget in that format.

5. Timely filing of AUD - In 2013 the Village retained the services of a governmental CPA to prepare its Annual Update Document, which was filed timely (with OSC approved extension) for 5/31/2013 and will be timely filed for 5/31/2014.

6. Independent Audit - The Village Board will consider RFP for outside auditor for FYE 2015, as the 2014-15 Adopted Budget did not provide funding for this service.

See
Note 20
Page 47

7. Structurally Balanced Budget – The Village is projecting 2013-14 fiscal year to result in an operating surplus. The 2014-15 Budget provides for significant tax increase to reduce deficit over the three years, and have revenue projections have been adjusted to recent projections.

8. Over-expended Appropriations - The Implementation of monthly budget variance reporting to the Board, coupled with the development of a Budgetary Control Policy, should eliminate the over expenditure of appropriation in the future.

9. Deficit Reduction – The 2014-15 Adopted Budget provides for a significant tax increase that should eliminate the deficit in the next 2 years, through producing operating surplus'.

See
Note 18
Page 47

10. BAN Proceeds Usage – Incorrect - Request this be stricken from the report

11. Excess Budget Note - Incorrect – Request thus be stricken from the report

See
Note 17
Page 46

12. Amend Procurement Policy for Professional Services -General Municipal Law exempts Professional services from competitive bidding requirements. When practicable, the Village will always seek the best services, at the lowest available cost.

13. Credit Card Policy and

14. Travel Policy – The Village Board will work to implement more comprehensive Travel and Credit Card Policies.

15. Board Audit of Claims - The Village Board will consider assigning a Trustee review the December Abstract prior to processing, with approval of the entire board ratified at the January meeting.

See
Note 21
Page 47

We respectfully request that the erroneous language noted above be stricken from the draft report prior to the issuance of the final report. In addition, the Village will begin to develop and implement a Corrective Action Plan to address the findings and improve the fiscal operations of the village of Westhampton Dunes.

Village Responses to Draft Report Findings and Discussion

Treasurer's Duties

Draft Report: The Board did not properly segregate the Treasurer's duties or provide sufficient oversight of her work.

Village Response: The Village is currently implementing procedures that will provide for the segregation of duties for the receipt and disbursement of funds between the Clerk and the Treasurer, to provide proper internal controls. The finance department of the Village of West Hampton Dunes has one representative, the Village Treasurer. The duties cannot be segregated. The same activities that are questioned in this audit were approved in the prior audits.

See
Note 22
Page 47

Draft Report: The Board failed to conduct annual audits of the financial records.

Village Response: This is not accurate. The Board does conduct annual audits and reviews of the financial records of the Village. The Board performs a monthly review of the financial records which are presented to the Board of Trustees by the Treasurer on a monthly basis. The Trustees also perform an annual audit and review of the financial records of the Village during the annual budget process.

See
Note 23
Page 47

See
Note 24
Page 48

See
Note 23
Page 47

Draft Report: The Village's financial condition has deteriorated because of the Board's decisions when developing and adopting annual operating budgets and its failure to appropriately monitor financial operations.

Response: This is an inaccurate statement which is not relevant to the Village and would not have been made after a proper audit. The financial condition of the Village of West Hampton Dunes is a direct result of the Village sustaining three natural catastrophes of historic proportions during the audit period which was not even mentioned by the audit staff, a gross impropriety. The fact that the Village of West Hampton Dunes survived these natural disasters intact, protected the lives and properties of its three hundred and thirty (330) property owners and maintained public access to the Town and County parks located in the Village, on an efficient Village budget without any aid from the State of New York or the Federal Government to which the Village is entitled but has not received, is a testament to the financial management of the Village and its officials.

See
Note 3
Page 43

Segregation of Duties

Draft Report: The board did not establish or any compensating controls over the Treasurer's financial activities.

Village Response: The Village is currently implementing standard perverting procedures that will provide for the segregation of duties for the receipt and disbursement of funds between the Clerk and the Treasurer, to provide proper internal controls. Within the parameters of the limited staff that is available in a Village with only a Treasurer and Clerk, the Board instituted

compensating controls of the Treasurer's financial activities. Trustee approval and signatures are required on checks, Trustees approve vouchers and abstracts.

Draft report: The Treasurer is solely responsible for all aspects of the Village's financial and recordkeeping duties, including receiving and depositing moneys (e.g., property taxes and permit fees), writing checks, making bank transfers, recording transactions, maintaining accounting records and reconciling bank accounts.

Village Response: This information is not accurate and it is not known how it became part of the report. The Village Clerk is also involved in depositing monies. Bank Transfers are reviewed and or approved by the Board.

See
Note 15
Page 46

The Board initiated proper controls prior to the audit period by involving one or more trustees in the pre-approval and review of financial transactions such as bank transfers and review of checks and reconciling bank accounts and the Village procedures were approved in prior audits.

The Village retained a certified public accounting firm to assist and review with recording transactions and maintaining accounting records and reconciling bank accounts during the audit period, and then retained a certified public accountant specializing in municipal accounting and finance with respect to the areas mentioned in the Draft Report.

Draft Report: Payrolls are not certified by a Board member and payroll transactions are not reviewed by anyone other than the Treasurer.

Village Response: Payroll transactions are reviewed by the Mayor and a Trustee, both Board members. As a corrective measure a more formal review will be conducted. The Village will respond with a corrective measure with regard to this comment.

Draft Report: The Treasurer makes debt payments and bank transfers without any prior authorization or a review of transactions.

Village Response: This is a repetitive comment that is not accurate. All debt payments are approved in advance by the Board of Trustees. All transfers are only from the general account to or from the reserve account, and all transfers to or from the reserve account are approved by the Board.

See
Note 25
Page 48

Draft Report: When one person controls all aspects of financial transactions, without compensating controls, there is an increased risk that Village funds could be misappropriated.

Village Response: This statement is not relevant to this Village and is copied over from another report or is improperly included just to sensationalize and dramatize this report. In the Village of West Hampton Dunes one person does not control all aspects of financial transactions without compensating controls. There is no evidence that any money has been misappropriated, and this language should be stricken from the Report. As stated above, the Village of West Hampton Dunes will be filing a corrective action plan which will address this comment.

See
Note 26
Page 48

Records and Reports

Draft Report: The Treasurer does not record transactions in an accurate or timely manner. Therefore, the cash receipt journals or detailed revenue and expenditure ledgers are not accurate or up-to-date. For example, we found that 27 disbursements totaling \$30,632 made on March 12, 2012, which were not posted in the accounting records until September 06, 2012, or 178 days after payment.

Village Response: The Treasurer records all transactions in an accurate and timely manner. All transactions are entered, the month is closed out, and the transactions for that month are run in financial reports that are circulated among the Board and Village officials at the monthly meeting for review and approval. The finding of one entry of disbursements not being timely made, which the Village disputes, does not support the Draft Report's inaccurate finding that all entries are untimely made and that all cash receipts journals and records are not accurate.

See
Note 27
Page 48

The bank reconciliations were prepared and available for review. If there were no bank reconciliations that were available for review, which is not true, why does the audit specify two months. November and December, 2012 were not provided. Bank reconciliations for all months of the audit period were completed by the Village and were available and provided during the audit. The auditors repeatedly misplaced records that they had received and frequently requested the same records multiple times, even after they had already received the records requested.

See
Note 6
Page 44

Draft Report: The Treasurer did not prepare or submit monthly reports to the Board and, the Board did not require the Treasurer to provide monthly reports. Although the Treasurer indicated that the Board "reviews" her work, we found that the Treasurer does not provide the Board with monthly statements of cash receipts and disbursements, bank balances, bank reconciliations, budget-to-actual reports or fund balance projections showing the Village's current financial positions.

Therefore, the Board could not properly monitor the Treasurer's operations or make informed decisions about Village financial operations.

Village Response: This is not accurate. The Treasurer prepares monthly reports which include budgeted amounts, actual year to date amounts, and the month's activities for the Board of Trustees, and the reports are provided to the Board on a monthly basis. The Board properly monitors the Treasurer's activities and the finances of the Village. The current financial position of the Village is accurately shown to the Board every month in financial reports that are prepared and submitted by the Treasurer.

See
Note 24
Page 48

Draft Report: Because of the many weaknesses in internal controls over the Treasurer's duties,

Village Response: This is not a professionally responsible statement, and was meant to dramatize the report for the media. There were no weaknesses in the internal controls that were mentioned.

See
Note 28
Page 48

Draft Report: We examined all bank statements and canceled checks processed during the audit period to verify the integrity of the checks issued, to determine whether checks were signed as required by the Board and whether disbursements were properly accounted for in the Village's accounting system.

Village Response: The auditors informed the Village at the beginning of the audit that they were going to review all checks, it was not because of a finding by the auditors during the audit that there was a "weakness". The total number of checks written during the eighteen month audit prior was approximately six hundred and eight (608) nonpayroll checks. The auditor staff was in the Village Office for seven months to review eighteen months of work, so the auditors reviewed twenty (20) checks a week during this period.

See
Note 29
Page 48

Draft Report: The Village maintains three checking accounts and uses the general fund checking account for the majority of its transactions.

Village Response: The Village only has one active general fund account at a time, and one reserve fund.

Draft Report: We identified the following issues:

- The one check issued from the reserve account for the purchase of a new quad vehicle for the Constabulary in the amount of \$7,411 was only signed by the Treasurer, was not listed on the abstract of audited claims and an invoice was not on file to support this payment. Village officials requested a copy of the invoice from the vendor for our review and the payment appeared to be a proper Village charge. However, the date of the invoice was 30 days after the date of the check and this transaction was not entered in the accounting records until 592 days after the check issue date.

See
Note 30
Page 49

Village Response: This transaction and the expenditure involved were approved by an individual resolution and were not on the abstract for that reason. The transaction was approved and paid for based on a proposal that was provided to the Village through the Constabulary, the department that was involved. The Village subsequently received a second document, the invoice that is described, separately, which is not improper and which should not be criticized in the Report.

Draft Report: Bank transfers of \$50,000 and \$25,000 were made from the reserve account to the general fund and recorded in the books 185 and 165 days, respectively, after the actual transfer date.

Village Response: The transfers were properly reflected in the books and records of the Village. The transfers and entries reflecting the transfers that are made will be reviewed in the future by the Board and the CPA that has been retained by the Village for that purpose.

Draft Report:

- Of the 608 general fund non-payroll disbursement checks, 470 (over 77 percent) were recorded in the Village records more than a month after the checks were written. Of the 470 checks, 209 were recorded between 100 and 178 days after they were written. The remaining 138 checks were recorded within 31 days.
- The Treasurer did not record disbursements made between March 5, 2012 and September 6, 2012 in a timely manner. Non-payroll check disbursements made in March, April and May 2012 were recorded in September 2012 while payroll transactions for the period of March 7, 2012 through October 17, 2012 were recorded at the end of October 2012.
- The Treasurer made a \$61,775 electronic payment to the NYS Employee Retirement System on January 31, 2012. However, this transaction was not recorded in the accounting records until March 5, 2012 and was recorded in the inaccurate amount of \$64,445. An adjustment to correct this entry was made on February 8, 2013, a year after the payment had been made.
- Payroll disbursements for the employer's share of Social Security and Medicare were not properly recorded. For example, for the 19 payroll periods from July 13, 2011 through March 21, 2012, the employer's share of Social Security and Medicare was \$34,772, but the treasurer recorded \$21,451 in the accounting records.
- Three checks totaling \$5,175 were entered into the accounting records even though they were never issued because they had been voided on the abstract of audited claims.

The Treasurer issues two duplicate checks totaling \$1,022. One of the checks was originally issued on November 18, 2011 to a law firm for \$280 and another check was issued on June 15, 2012 to the same law firm for \$1,290 (two separate invoices, \$742 and \$548). The law firm re-billed the Village for \$280 on January 4, 2012 and the Village paid that amount on January 17, 2012. The law firm also re-billed the \$742 on August 7, 2012 and the Village issued a new check on August 10, 2012. However, the original checks remained outstanding during this period and were still recorded in the Village's books as of May 2013.

Village Response: The Village disputes these findings, however, the disbursements and the entries recording the disbursements that are referenced will be reviewed by the Village, the Board, and the CPA that has been retained by the Village for that purpose.

Budget Format

Draft Report: It is important that the budget officer prepares the tentative budget in the format required by law because this provides the Board with historical and current year-to-date financial information. This information is essential for assessing the reasonableness of proposed revenues and expenditures. Without it, the Board cannot make informed decisions about Village finances. Consequently, the Board has adopted budgets that were not structurally sound because they were based on incomplete financial data and on revenue and appropriation estimates that were

unrealistic. As a result, annual operating deficits occurred which undermined the Village's financial positions and depleted its fund balance.

Village Response: The information required to be provided by law, the three columns of information and analysis, was provided by the Treasurer to the Board with the tentative budget, for the tentative budget presentation and review. The operating deficits during the eighteen month audit period had nothing to do with the budgets that were prepared or adopted, as improperly claimed, but were the result of the natural catastrophes of historic proportions that occurred during the audit period, as previously described above. The Board made sound decisions based on the proper information that was provided, there was no possible way that any public official could have predicted or budgeted for the three storms of the century occurring within the eighteen month audit period, which was not even mentioned in the Draft Report.

See
Note 31
Page 49

See
Note 3
Page 43

Annual Audit

Draft Report: The Board has not performed annual audits of the Treasurer's records and reports since the Village was created in 1993. We found no documentation or evidence in the Board minutes to show that the Board had audited, or caused to be audited, the Treasurer's records and reports. The Mayor verified that the Board had never hired an independent public accounting firm to conduct an annual audit of the Treasurer's books and records.

Without an annual audit, the Board does not have assurance that the Treasurer properly accounted for all the Village's financial resources, the there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

The Board's failure to properly oversee the Treasurer's duties created an environment that allowed the Treasurer to maintain incomplete financial records, and allow errors and irregularities to occur without being detected and corrected timely. As a result, the Treasurer did not prepare monthly financial reports essential for the Board to adequately monitor and evaluate Village finances in a timely manner, did not present the Board with a budget in the proper format or ensure that the AUD was filed timely and accurately. Accurate and timely financial reports are essential tools that the Mayor and the Board should use to make prudent and informed financial decisions when preparing and adopting the annual budget. The lack of such financial reports contributed to adopting budgets that were not structurally balanced.

Village Response: These inaccurate remarks were addressed previously. The Board has fully reviewed all financial records. The minutes, which the audit staff claims they relied on for this inaccurate information, reflect votes of the Trustees during public meetings only, and would not have provided the information. The Village actually did retain a certified public accounting firm to perform these tasks during the audit period, and the Board subsequently retained the services of a certified public accountant who specializes in municipal accounting and finance, which is improperly ignored by the Draft Report.

See
Note 24
Page 48

See
Note 28
Page 48

It is not accurate in the Village of West Hampton Dunes that the Board does not oversee the activities of the Treasurer or that the Treasurer provides inaccurate reports, and it is unclear on what information these inaccurate remarks are based.

See
Note 24
Page 48

Recommendations

1. The Board should segregate the Treasurer's duties to ensure that financial transactions are not handled by the same individual in each phase of a process. The Board should either closely monitor the Treasurer duties or assign a Village employee or Board member to review, monitor and approve the Treasurer's work.
2. The Board should require the Treasurer to record all Village transactions in the accounting records accurately and in a timely manner. The Board should also require that the Treasurer file monthly financial reports with the Board, including budget-to-actual revenue and expenditure reports, trial balances, and cash receipts and disbursement reports.
3. The Treasurer or a designated individual should prepare monthly bank reconciliations and complete them timely. If the individual who prepares the reconciliation is not independent from the record keeping and check-signing functions, then the Board should designate another official to review and approve the bank reconciliations.
4. The budget officer should prepare and submit tentative budgets to the Board containing all required schedules, financial information, and in the formats required by law.
5. The Treasurer should file annual financial reports with OSC within 60 days following the close of each fiscal year, as required by law, and ensure that the reports are accurate.
6. The Board should annually audit or cause an audit, the Treasurer's financial records.

These recommendations were addressed in a prior section of this report.

Financial Condition

Draft Report: The Village's financial condition has deteriorated because of the Board's decisions when developing and adopting annual operating budgets and its failure to appropriately monitor financial operations. The Board lacked the financial information essential to make informed decisions when adopting the budget. In addition to the ineffective budgeting practices, the Village's financial position also deteriorated because the Board did not monitor the budget implementation and did not require the Treasurer to prepare and submit periodic budget-to-actual reports for review. Consequently, the estimated revenues and expenditures in adopted budgets were not realistic, resulting in annual operating deficits totaling \$445,023 over four years. These budgeting practices and the negative restatement of fund balance of \$21,532 contributed to the decline in general fund balance, from an unexpended surplus of \$318,821 at May 31, 2009 to a reported fund deficit of \$147,734 at May 31, 2013.

Village Response: The information that is required by law to be provided to the Board as the tentative budget process is accurately provided by the Treasurer with the tentative budget. The incurred deficits were as a result of the natural disasters that impacted the Village, litigation that the Village, along with three other Town of Southampton Villages was forced to commence

See
Note 3
Page 43

See
Note 31
Page 49

against the Town Trustees in 2010, and other extraordinary circumstances, and the failure of the State and Federal governments to provide aid that is due to the Village. The Board has addressed the deficit in the 2014-2015 budget and tax rate.

Draft Report: As a result, of ineffective budgeting practices and deteriorating financial condition, the Village experienced a cash flow shortage in the 2012-13 fiscal year. The Board inappropriately used proceeds from a \$500,000 bond anticipation note (BAN) to alleviate the shortage. After we informed the Board of the restrictions on BAN proceeds, it used a \$200,000 budget note.

Village Response: This is a combination of false statements by the auditors. The Village did not use the proceeds of the BAN for any purpose. The proceeds of the BAN were inadvertently wired to the Village general fund. One week later the BAN funds were transferred, in full and intact, to the reserve fund. No BAN funds have been used. The Village planned a budget note in the amount of \$200,000, a legal amount for the Village to borrow, through a budget note, independent of any discussion with the auditors.

The auditors claim in this section of the Draft Report that the budget note in the amount of \$200,000 was taken out after a discussion with them and then contradict that claim in another section of the Draft Report in which the Draft Report cites the Village for improperly taking out a budget note in the amount of \$200,000 (it was not improper for the budget note to be in that amount for the reasons stated above).

See
Note 18
Page 47

See
Note 17
Page 46

See
Note 32
Page 49

Fund Balance

Draft Report: Since at least 2010, tentative budgets presented to the Board for approval lacked the financial information essential for the Board to make informed budget decisions. Consequently, estimated revenues and appropriations in the adopted budgets were not accurate or realistic and resulted in annual operating deficits totally \$445,023 over four years. Although Village officials are precluded from committing Village resources or incurring expenditures in excess of amounts appropriated in the budget, they overexpended budget appropriations in three out of the four fiscal years by as much as \$128,000. As a result of these budgeting practices and the negative restatement of fund balance of \$21,532, the general fund balance declined by a total of \$446,555 from an unexpended surplus of \$318,821 at May 31, 2009 to a reported fund deficit of \$147,734 on May 31, 2013, or 10 percent of reported general fund expenditures.

If the Board continues to adopt unrealistic budgets that are based on incomplete financial information, It may not be able to manage or eliminate the Village's fund deficit without either disrupting service levels and/or substantially increasing property taxes.

Village Response: The Village was accurately provided the full information that is required by law and that it needed to make these decisions. The deficits that were incurred were as a result of extraordinary circumstances during the budget period which are addressed above. The Board receives full and current financial information on a monthly basis.

See
Note 3
Page 43

See
Note 31
Page 49

Debt Proceeds and Cash Flow

Draft Report: The comments of the draft report in this section are the repetitive erroneous comments that have been stated several times previously and will not be restated.

Village Response: The Village did not improperly use the proceeds of the BAN. This is a false accusation by the auditors after they spent the audit reviewing four hundred and seventy (470) checks.

See
Note 18
Page 47

The Village did not exceed the legal limit of the amount of the budget note. The budget note was only taken out after extensive detailed conversations with the Village Bond Counsel, Hawkins Delafield. Et. al, the Village financial advisor, Munistat Corporation, the CPA retained by the Village, and the Village Attorney, with the knowledge of the representatives of the Office of the New York State Comptroller. It is grossly improper for the Office of the New York State Comptroller to criticize the Village on this point.

See
Note 17
Page 46

See
Note 32
Page 49

For every budget preparation period the Village reviews the prior year's appropriations and expenditures, and the expected revenues and expenditures for the next period. The budget and the tax rate for the 2014-2015 tax year addressed these concerns.

See
Note 31
Page 49

Board Oversight

Professional Services

Draft Report: The Village paid a total of \$190,654 to eight professional service providers during the audit period. Our review of claims paid to four attorneys and one environmental consultant, totaling \$174,650, disclosed that the Village did not use competition to procure these services. The Village also did not enter into a written agreement with one attorney who was paid \$1,500 and the contract with the environmental consultant did not specify the fees to be charged. In addition, the Village paid the environmental consultant \$20,431 for the purchase of goods that were not professional services, including \$17,340 for snow fencing. Because the procurement policy does not address methods for selecting professional service providers, Village officials are not ensuring that these services are obtained at the best possible price. Furthermore, without written agreements, the Village and the service provider have no formal documentation of the services to be provided and the amounts to be paid.

Village Response: The purchase of the snow fencing was at Town and County bid prices. The environmental consultant is the Town and County approved provider of snow fencing. The snow fencing was installed at little or no cost to the Village by labor that was provided inexpensively or for no cost from Suffolk County, which was made possible by the manner in which the snow fencing was purchased and the project was undertaken.

See
Note 12
Page 45

No written agreement is required for an arrangement with an attorney to provide services with a value of \$1,500.

See
Note 33
Page 49

The professionals were selected by the Board because they have a particular expertise in the particular area of law or field in which they were providing services. The amounts charged to the Village for the professional services provided were compared to the amounts charged to other municipalities for comparable services and found to be lower than the amounts or rates charged to other municipalities for the same or similar services.

Credit Cards.

Draft Report: While the Board has formally authorized the use of credit cards for the Mayor, the Clerk and two Constables, the Board has not adopted a credit card use policy that describes when and how credit cards should be used. We reviewed 48 claims comprising 133 credit card purchases incurred during the audit period totaling \$ 17,410. Of the 133 charges, 117 totaling \$14,568 did not have a receipt attached. Consequently the Board could not perform a proper audit of the charges. Three of the charges, totaling \$43 were finance charges due to late payments, and the other 13 charges, totaling \$2,799, were documented with receipts. However, four of the receipts totaling \$721 were not itemized, two other receipts, totaling \$963, were for alcoholic beverages, an inappropriate Villages charge, and eight receipts contained sales tax charges totaling \$128.

Because the Board did not adopt adequate policies and procedures over credit cards and did not ensure that all charges were itemized and supported by original receipts, the Board could not properly audit the charges and the Village may have paid for purchases that were either not authorized or were not for a proper Village purpose.

Village Response: The Village had adopted a credit card use policy. The policy will be reviewed by the Village in accordance with these comments. All expenditures that were incurred were approved in advance by the Board.

See
Note 34
Page 49

Claims Processing

Draft Report: While the Board has formally authorized the use of credit cards for the Mayor, the Clerk and two Constables, the Board has not adopted a credit card use policy that describes when and how credit cards should be used. We reviewed 48 claims comprising 133 credit card purchases incurred during the audit period totaling \$ 17,410. Of the 133 charges, 117 totaling \$14,568 did not have a receipt attached. Consequently the Board could not perform a proper audit of the charges. Three of the charges, totaling \$43 were finance charges due to late payments, and the other 13 charges, totaling \$2,799, were documented with receipts. However, four of the receipts totaling \$721 were not itemized, two other receipts, totaling \$963, were for alcoholic beverages, an inappropriate Villages charge, and eight receipts contained sales tax charges totaling \$128.

Because the Board did not adopt adequate policies and procedures over credit cards and did not ensure that all charges were itemized and supported by original receipts, the Board could not properly audit the charges and the Village may have paid for purchases that were either not authorized or were not for a proper Village purpose.

Village Response: The statements provided by the Village Attorney contained correct charges but with reduced totals, in favor of the Village. Amended statements reflecting this in more detail were provided to the audit staff during the audit and were apparently improperly ignored by them.

See
Note 13
Page 46

The payments to the two outside counsel were correct based on the invoices received and reviewed by the Village, and appropriate invoices were provided to the auditors. The invoices provided and the audit comments are being reviewed and reconciled by the Village.

The Village approved only bills that are repetitive and incurred in the routine and normal operation of the Village. Although the Board believes that the payments that were made for December, 2011 and December 2012 bills were proper, the December, 2013 bills that were paid were authorized and approved by a public vote of the Board prior to their payment.

See
Note 35
Page 50

The following are the comments of the public officials of the Village of West Hampton Dunes.

Sincerely, /

/Gary V~~e~~gliante, Mayor

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

We originally notified Village officials on October 19, 2012, that the Village was selected for an audit. To accommodate the Village's request to delay the start of the audit process, we agreed not to start the audit until January 14, 2013. The statement that the auditors refused to provide any adjustment to the audit process is incorrect.

Note 2

In their response, Village officials acknowledged that they plan to eliminate the general fund deficit by raising property taxes in 2014-15 and future years. Our audit report describes how the Village progressed from a fund surplus to a fund deficit without Village officials taking necessary actions to prevent this. The Village's reported financial data shows that the Village sustained and reported operating deficits for 15 of the last 19 fiscal years.

Note 3

Given Village officials' belief that the Village has been regularly impacted by natural disasters, it would be reasonable to assume that they would develop a sound financial plan to address unplanned events. Such a plan should include establishing policies for maintaining reasonably healthy fund balances and establishing legal reserves such as tax stabilization and capital reserves. Unfortunately, Village officials have not established an effective financial plan to address the consequence of severe weather conditions and mitigate the negative impact on Village finances.

Note 4

On several occasions our staff asked Village officials for an accounting of the extraordinary expenditures filed with FEMA to recover the cost of damages caused by Hurricane Sandy in order to determine what impact the storm had on 2012-13 results of operations. As of June 2014, such an accounting has not been provided. However, indications as to the extent of damage sustained by the Village can be found in the Public Offerings Statement (POS) for the \$500,000 BAN issued on April 4, 2013 and in the POS for the \$200,000 budget note issued on May 24, 2014, both of which state the following under Hurricane Sandy:

Because of the path of Hurricane Sandy, the Village did not experience the effects of the storm as much as other areas to the west. The Village requested that the Long Island Power Authority ("LIPA") take it off the grid the night before the storm to eliminate any potential for fire damage. Within days of the storm, every home was inspected by a UL certified inspector and meter pans were removed from any home that had evidence of water incursion. Once all Village residences were compliant with the LIPA certification procedure, power was restored within days. Roads were cleared of debris and ocean dunes were inspected for damage and repaired within days of the storm. The dunes were intact and did not incur any major breaches. The main land in the

immediate vicinity of the Village did not sustain any major flooding or damage. Less than 10% of the homes sustained exterior damage and there was no structural damage reported.

On February 19, 2013, the Village board authorized a resolution directing the transfer of monies from the general fund to pay all costs associated with the storm, in an amount not to exceed \$75,000. The Village has been in contact with officials on the Federal and State levels and it is expected that much of the storm-related expenditures will be reimbursed.

In view of the official representation made in the Village's POS, their response to this audit is confusing.

Note 5

Village officials never informed us during the audit period that the Village suffered computer hardware and software problems which interrupted the entry of information or data into their financial software system. At the entrance conference, the Treasurer indicated that she was in the process of upgrading the Village's financial software and that certain computer-generated data would be made available once the upgrade was completed. At no other time did Village officials suggest that they were or had been experiencing hardware or software problems. When we asked the Treasurer at the exit conference when she experienced those problems, she replied that she did not recall.

Note 6

Our audit report states that, "we found no evidence that bank reconciliations were prepared and available for review" and the Treasurer could not provide us with the most recent bank reconciliations for November and December 2012. The November and December 2012 bank reconciliations were later completed by the same accounting firm who was hired to prepare the Village's past due AUDs and contained significant adjusting entries, some of which dated back to 2000. The magnitude of the reconciling adjustment, \$41,592, suggests that bank reconciliations had not been prepared correctly since 2000. Had Village officials prepared bank reconciliation routinely and timely, such adjustments would have been detected and corrected timely. We repeatedly requested other records which were never provided to us for review, such as the Treasurer's monthly reports, proposed budget supporting schedules and documentation or evidence to support expenditures incurred while attending conferences, which should have been attached to the claims and made available to the Board for audit before they were approved for payment.

Note 7

All of the records that were made available to us for review were returned to the Village.

Note 8

The draft report did not contain factual errors or intentional partial statements as Village officials contend. Village officials offer examples that are clear misrepresentations of the facts. In response to our inquiries about the late filing of the Village AUD, we were told that for many years these reports were properly filed and that they were rejected by OSC resulting in expensive litigation for the Village. We researched this issue and found no record to indicate that the Village AUDs were rejected within the last 10 years. The only litigation we are aware of occurred in 1995 and relates to the

Village's calculation of its Constitutional Tax Margin. Therefore, the Village response is misleading and inaccurate.

Note 9

It appears that the Mayor and the Treasurer wish to retract statements they made during the audit that the Village never hired an independent accounting firm to conduct an annual audit. Therefore, we have deleted that reference from the audit report. However, the Village has never hired a certified public accountant (CPA) to conduct an annual audit and render an opinion on the fairness of the Village's financial statements. The Board's January 14, 2013 Board resolution approved the retainer agreement with the CPA "for an additional \$3,000 to prepare a compilation for the year ending May 31, 2012." The CPA engagement letter, dated January 3, 2013, also unequivocally states that the CPA will perform compilation services for the year ended May 31, 2012, and "will not express an opinion or provide any assurance regarding the financial statements being completed." The CPA also agreed, among other things, to "assist the Village in adjusting the books of accounts." The Board also approved other payments to the CPA in 2012 for services described as "classify and summarize accounting data for the year ended May 31, 2009, 2010 and 2011" and "preparation of the annual financial report for year ended May 31, 2009, 2010, and 2011."

Note 10

Towards the end of our fieldwork, the Village retained the services of another independent accountant to assist the Village in accounting and financial matters that are the subject of the report.

Note 11

The CPA firm retained by the Village appears to have performed the services they were contracted to perform as ratified by the January 14, 2013 Board resolution and as detailed in the January 4, 2013 engagement letter. The CPA firm told us that they did not conduct an audit because the Village engaged them only to provide compilation services and not to conduct an audit of the Village's financial statements. In addition, it would be a conflict of interest if the same CPA who was responsible for preparing the Village's financial statements also audited the same statements. We also noted that the Village official who certified the 2011, 2012, and 2013 AUDs indicated on question 2 of the certifications that the Village's financial statements had not been independently audited and that they had no plan to have an audit conducted.

Note 12

Statements made by the Village in its response relating to this issue are incorrect. The purchase of \$17,340 of snow fencing from a professional environmental consulting service provider preceded the events of Hurricane Sandy, which occurred in late October 2012. The vendor's invoice referred to in our report was dated May 16, 2012 and was paid by the Village on May 18, 2012. Therefore, the assertion that the "snow fencing was purchased as an emergency measure" is inaccurate and not relevant to the issues discussed in our report. Village officials appear to be referring to snow fencing invoices that were paid during April 2013, which was outside of our audit period.

Note 13

Village officials appear to misunderstand our finding. Our review disclosed deficiencies with the claims audit process. Had the Board performed a thorough claims audit, they would have detected and corrected any discrepancies before ordering the Treasurer to pay the claims. Village officials provided us with an accounting from the attorney dated July 21, 2013 listing: amounts billed of \$127,787.40 for the period May 2011 through June 2013, the correct amounts totaling \$130,182.15 and the net difference due the attorney of \$2,394.75. The attorney stated that “any discrepancies are due to the application of credits that I intended to apply to the bills, and I am waiving the above amount and accepting the payments received as full payment in satisfaction of these bills.” If the attorney intended to offer the Village a discount for his services, such discount should have been explicitly stated and deducted from each of the legal bills at the time they were billed.

Note 14

Village officials offer no proof to validate those assertions. The use of the word “irregularities” in our report is appropriate and is done to point out to the Board that ineffective internal controls, the lack of monitoring, untimely filing of AUDs and the failure to audit the Village’s books and records on an annual basis creates an environment where there is an increased risk for errors or irregularities to occur without being detected and corrected.

Note 15

We acknowledge that the Treasurer is not solely responsible for the collection of property taxes and revised our report accordingly.

Note 16

Not all claim vouchers processed for payment were signed by the Department Head who gave rise to the claim and every check was not countersigned by a Trustee. Instead, some checks were countersigned by the Clerk. For example, some claim vouchers for legal services were signed by the Clerk rather than the Mayor and others were not signed. This deficiency was discussed at the exit conference.

Note 17

Based on the legally-adopted resolution of May 17, 2013, incorporated in the Board minutes, the \$200,000 of budget notes issued by the Village exceeded the 5 percent limit. The Board resolved to “approve the authorizing of the issuance of Budget Notes in the principal amount of not to exceed \$200,000 to provide funds for which an insufficient or no provision has been made in the annual budget of the Village for the fiscal year ending May 31, 2013.” While the resolution refers to Section 29.00 of Local Finance Law (LFL), it does not contain language such as “*unforeseen public emergency*” or “*peril to lives and property of citizens*” to show that the Board intended to issue the budget note pursuant to emergency provisions of Section 29.00(a)(1) of LFL.

Note 18

The chronology of events and use of BAN proceeds as portrayed by the Village is inaccurate and not supported by the Village's bank statement transactions. On April 3, 2013, the Village had cash balances in the general fund of \$101,625.¹⁹ The \$500,284 BAN proceeds were received and deposited in the checking account on April 4, 2013, and later transferred to the reserve account on April 19, 2013. On April 23, 2013, Village officials transferred \$75,000²⁰ from the reserve account to the checking account to pay for general operating expenditures, which reduced the BAN proceeds in the reserve account to \$456,770 or \$43,514 less than the BAN proceeds received on April 4, 2013. As of May 31, 2013, the balance in the reserve account remained at \$456,770. We caution Village officials that the reserve account is a general fund account and BAN proceeds should not be comingled with other operating money unless it is done for investment purposes while maintaining a proper accounting.

Note 19

The Board did not authorize the Mayor to attend any conferences at the reorganization meeting. The resolution that was adopted states in part "... officers and employees of the Village of West Hampton Dunes may, after prior approval by the Board of Trustees, attend conferences and seminars ...". We found no Board resolution authorizing the Mayor to attend meetings and conferences in advance of approval, as required by GML.

Note 20

Village Law requires the Board to annually audit, or have a Village officer, employee or an independent public accountant, audit the Treasurer's financial records.

Note 21

Village Law requires the Board to audit and approve all claims prior to payment. The review and approval of claims by one Trustee would not comply with statutory requirements.

Note 22

Although it may be challenging for Village officials to segregate the duties and responsibilities of the Treasurer, they have the responsibility to design a system of controls that will safeguard Village assets. Compensating controls can be instituted to insure that some of the Treasurer's duties are segregated and that her work is reviewed by an individual not involved in the process of collecting, recording and disbursing cash.

Note 23

Board minutes provide no evidence that the Treasurer presented her books and records to the Board for audit. In addition, there is no evidence to show that the Board audited or caused an annual audit of the Treasurer's books and records as required by law. This statement is also inconsistent with comments

¹⁹ As per checking account balance of \$70,140 and reserve account balance of \$31,486, at April 3, 2012.

²⁰ The Village's general ledger show that the book balance in the general fund checking account was a negative \$27,242.25 before the transfer of \$75,000 was made from the reserve account to pay for operating expenditures.

elsewhere in this response regarding the Board's consideration of procuring outside auditors to conduct an independent audit for the 2014-15 fiscal year.

Note 24

We found no evidence in the Board minutes indicating that the Treasurer presented monthly financial reports to the Board for review nor did we find any Board discussions related to the Treasurer's reports to show that the Board had reviewed the reports and questioned Village finances. Board minutes provide no indication that the Treasurer attends Board meetings. The Clerk, who is the Village's record officer, confirmed that she has no record of Treasurer's reports. At the exit conference, we again asked the Treasurer to provide us with the monthly reports submitted to the Board during the audit period. She indicated that she did not have them but would have to go through storage to find them. To date, we have no such reports.

Note 25

This comment does not address the finding in our report that there are insufficient controls over electronic disbursements. Our audit found that transfers are shown on the bank statement as direct payments to third parties or governmental agencies including the IRS, ERS and other banks holding Village debt. Wire transfers, which move large dollar amounts from Village accounts, are made without sufficient independent review and approval of the transactions.

Note 26

Our report illustrates what could happen when there are ineffective internal controls, lack of segregation of duties and a lack of monitoring or compensating controls, such as checks and balances to ensure that all transaction are authorized, valid and accurately executed. Without such controls, there is an increased risk for errors or irregularities to occur without being detected and corrected.

Note 27

Over 77 percent, or 470, of non-payroll checks were recorded untimely for periods ranging from 31 days to 178 days. The example cited in the report represents 27 of those transactions which were recorded 178 days after they had been paid.

Note 28

Our audit report cites numerous examples and instances of errors, untimely recording of transactions, failure to prepare bank reconciliations timely, failure to submit monthly Treasurer reports to the Board and failure to comply with certain statutory requirements. The major causes for these occurrences were ineffective internal controls, lack of segregation of duties, lack of compliance with statutory requirements and the lack of monitoring or lack of compensating controls.

Note 29

This is incorrect and indicative of Village officials' misunderstanding of the audit process and the professional standards to which our staff comply when conducting audits. Such standards require us

to assess risk and select the scope areas most susceptible to risk for further review. To suggest that auditors only “reviewed twenty (20) checks a week” during our audit is not only incorrect, but is also an inappropriate attempt to mischaracterize the audit process.

Note 30

Although the Board may have approved the purchase of the vehicle, the Board is still responsible to audit and approve the related claim for payment. Because this claim was not included in the abstract of audited claims, the Board neither audited nor approved the claim for payment. In addition, Village officials had no documentation or support on file, such as a vendor invoice, to determine that the purchase was for a legitimate Village purpose. Upon our request, a copy of the vendor invoice was requested and received from the vendor.

Note 31

At the exit conference, the Treasurer gave us a copy of a three-column report that she provided to the Board with the ensuing year’s proposed budget, which included the current budget, actual revenues and expenditures to date and the budget variances. However, this report was not incorporated into the tentative budget format and there was no evidence that revenues and expenditures of the prior completed fiscal year were provided to the Board. In fact, we found no evidence in the Board minutes to show that the annual budgets submitted to the Board for review and approval were in the format required by law and contained other required information such as: year-end projected fund balance, a salary schedule and a schedule for debt service requirements. The Clerk also confirmed that, other than the adopted budgets described in our report, she did not have any other budget-related material or reports on file.

Note 32

Our audit report does not include contradictory information. We informed Village officials about the legal restrictions on the use of BAN proceeds. Such funds must be used for the purpose for which the BAN was authorized and may not be used for operating purposes. After we discussed these legal restrictions with Village officials, the Board authorized the issuance of a \$200,000 budget note. We were not asked, nor did we provide information or input to the Board regarding their decision to issue the budget note.

Note 33

Without a written agreement setting forth the extent of services to be provided and the method for compensation, Village officials have no assurance that the services provided were consistent with agreed-upon terms and at the agreed price.

Note 34

The Board did not have a credit card use policy in place during our audit period. The referenced policy was not given to us for review nor was the policy presented to us at the exit conference.

Note 35

The issue is not whether the expenditures were for a legal and proper Village purpose, but whether the claims had been audited and ordered to be paid by the Board before payment. Nevertheless, it appears, based on the Village's response that the Board has taken corrective action to ensure that the December 2013 claims were audited by the Board before being paid.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board provided adequate oversight of fiscal operations. To accomplish this, we performed an initial assessment of the internal operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, information technology and the operations of the individual Village departments.

During the initial assessment, we interviewed appropriate Village officials to obtain an understanding of the organization and the accounting system, performed limited tests of transactions, and reviewed pertinent documents, such as Village policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Village's financial transactions as recorded in its databases. Further, 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 duties, financial condition and Board oversight for further audit testing. Our audit included the following procedures:

- We reviewed Board minutes, Village policies and procedures and adopted budgets for fiscal years 2009-10 through 2012-13.
- We compared the Treasurer's books and records to the AUD financial information submitted to OSC to determine the consistency, accuracy and reliability of the Treasurer's records.
- We performed tests of the Treasurer's records and reports to determine their accuracy and consistency with original source documents. This included comparing source documents, such as deposit records and property tax billings, to determine the accuracy and timeliness of deposits and their timely recording in the accounting records.
- We examined audit trails of the Treasurer's financial software to determine the timeliness of entering disbursement transactions into the financial records.
- We interviewed the Treasurer and reviewed our online database records to determine if the AUDs were filed on a timely basis.
- We interviewed the Mayor and Treasurer to determine whether the Board, or an independent accounting firm, conducted an annual audit of Treasurer's financial records.

- We interviewed the Mayor and two Trustees to gain an understanding of the Board's oversight role or internal controls procedures in place to monitor the Village's financial operations.
- We analyzed financial data for the general fund from available accounting records, reports, budget-to-actual reports and the Village's AUDs for the 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years to determine financial activity trends.
- We examined vendor history reports to quantify payments made to professional service providers. We reviewed the service providers' invoices for accuracy and to determine that the billings and payments were for Board-authorized services.
- We examined credit card billings to determine if there was proper supporting documentation for charges incurred during the audit period. We examined credit card statements to determine the nature of the credit card charges and to ascertain whether expenditures were made for legitimate Village purposes.
- We interviewed the Mayor and appropriate Village officials to evaluate internal controls procedures over the Mayor's travel expenditures. We examined credit card statements and corresponding claim voucher packets to determine if he received prior authorization for the travel and whether proper supporting documentation related to the claims, such as itemized receipts for fuel, meal and lodging charges, were included.
- We examined paid invoices, bank statements, bank deposit records, documentation for paid claims and abstracts.
- We performed tests of non-payroll disbursements to determine that only authorized officials signed checks. We also tested control procedures for voided checks and tested electronic transfers for payroll and debt service payments.

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.

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